

## **DISCRETIONARY GENERAL FUNDING**

County general fund operations are funded with four major types of sources: departmental revenue, Proposition 172 revenue, Realignment revenues (1991 and 2011 Realignment), and countywide discretionary revenue.

- Departmental revenue includes fees, service charges, and state and federal support for programs such as welfare, health care, and behavioral health.
- Proposition 172 revenue is a permanent extension of a half-cent Local Public Safety Sales Tax approved by California voters on November 2, 1993. Proceeds of this sales tax must be dedicated to public safety. Proposition 172 revenue is restricted and is used solely for funding the Sheriff/Coroner/Public Administrator, District Attorney, and Probation departments.
- 1991 Realignment revenue provides health and welfare funding. In 1991-92, the state approved the Health and Welfare Realignment Program that involves a shift of program responsibilities from the state to the County. This shift is funded through a corresponding shift of dedicated sales tax and vehicle license fee revenue. Realignment revenue is also restricted and used in funding mental health, social services and health programs within the County.
- 2011 Realignment revenue provides public safety, health, and welfare funding. In 2011-12, the state approved what has become known as AB 109 Public Safety Realignment. As part of this realignment, the State addressed prison over-crowding by shifting custodial responsibility of non-violent, non-sex, and non-sex-against-children ('Triple-Nons') offenders to local jails. In addition, the parole function of the state was delegated to county Probation departments. In conjunction with Public Safety Realignment, the State also shifted full financial burden of many social service and mental health programs. The County was responsible for delivery of these programs before realignment but with the shift the state would no longer participate in the share of cost. While the state no longer shares in the cost it has dedicated a portion of the state sales tax (1.0625%) revenue along with a portion of vehicle license fees for these realigned programs.
- Countywide discretionary revenue includes a variety of revenue sources that are not legally designated for a specific purpose or program. The majority of discretionary revenue is property related revenue, primarily property tax. Other revenue sources in this category include: sales and other taxes, net interest earnings, Countywide Cost Allocation Plan (COWCAP) revenue which is a reimbursement for overhead/indirect costs incurred by the general fund, property tax administration revenues, recording fees, other state and federal aid, and other revenue. Additionally, the general fund's available fund balance, use of reserves and operating transfers in, are other funding sources that can be allocated to general fund departments in the same manner as countywide discretionary revenue.

County general fund operations not funded by departmental revenue, Proposition 172 Revenue, and/or Realignment revenue are funded by net county cost (or discretionary general funding). Net county cost is funded by countywide discretionary revenue, which is primarily property tax revenue.

Any countywide discretionary revenue not distributed to departments through their net county cost allocation, contributed to reserves, or transferred to other funds for specific projects/programs, is placed in contingencies. Every year the County of San Bernardino has set aside a prudent dollar amount in contingencies and reserves for two purposes: 1) to ensure that the County can accommodate unforeseen increases in expenditures or reductions in revenues, or other extraordinary events, which would harm the fiscal health of the County; and 2) to be proactive and set aside funds to meet future known obligations or to build a reserve for large capital projects.

The following sections provide details of:

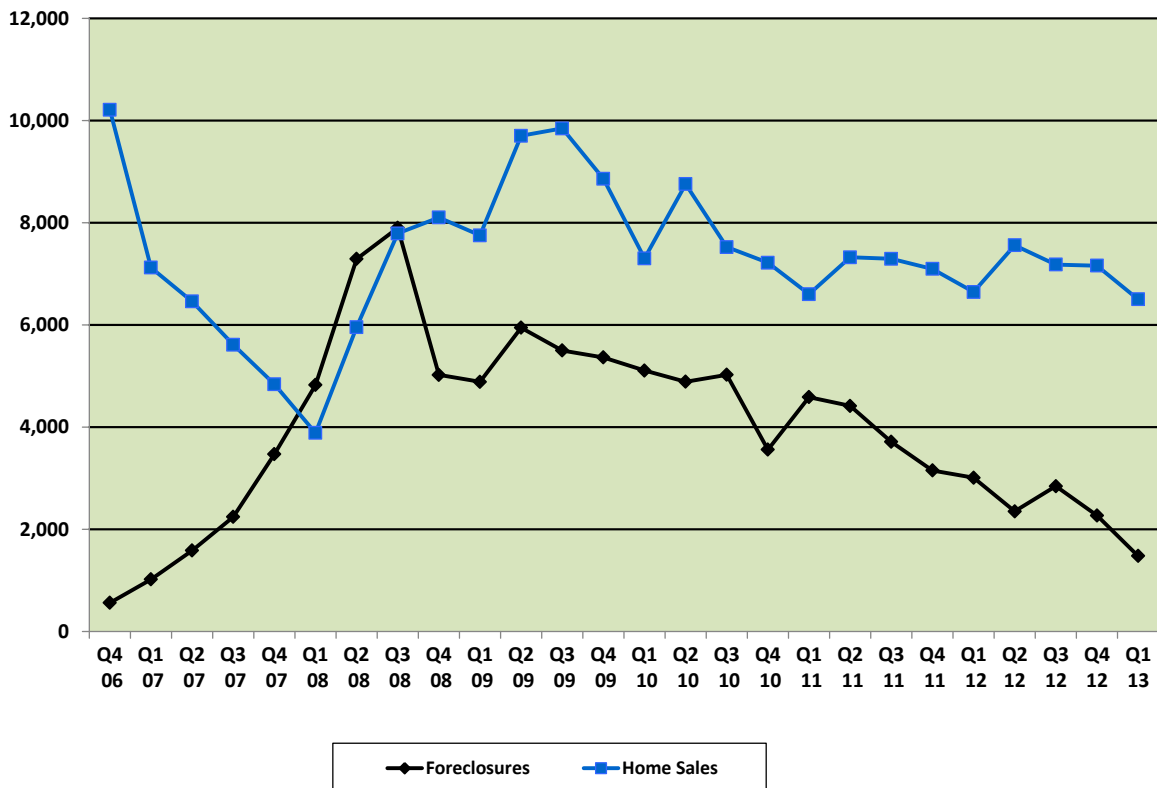
- The economic indicators that are factored into the County's fiscal plan.
- How these indicators and other factors affect Proposition 172 revenue, Realignment revenue, and countywide discretionary revenue.
- The County Restricted General Fund – Automated Systems Development budget unit.
- How discretionary general funding (net county cost) has been allocated for the fiscal year.
- Information on general fund contingencies and reserves.



**ECONOMIC INDICATORS**

Property related revenue accounts for approximately 60 percent of the County's discretionary revenue. These revenues have been severely impacted by the mortgage and financial crisis, which has had a significant effect on the housing market within the County. Over the past few years home values have plummeted as foreclosures and notices of default have skyrocketed. Assessed valuation has been negatively affected both by homes selling at prices lower than their current assessed valuation, and by Proposition 8 reassessments, which lower valuations of properties (where no change in ownership has occurred) if the current assessed value of such property is greater than the fair market value of the property. However, as shown in the chart below, foreclosures, which at times outstripped home sales, are now declining rapidly. In addition, as shown in the chart on the next page, the median home price has begun to rise.

**COUNTY OF SAN BERNARDINO  
FORECLOSURES/HOME SALES BY QUARTER  
QUARTER 4 2006 THROUGH QUARTER 1 2013**

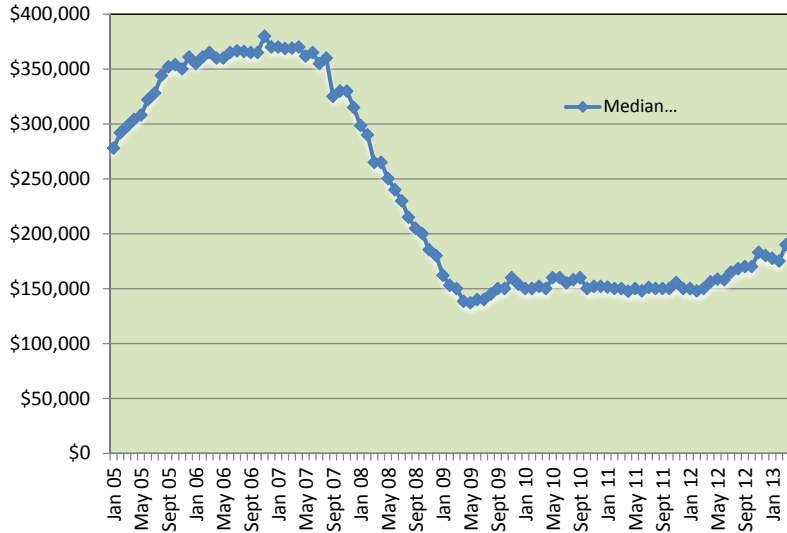


Source: County Assessor and Dataquick



2012 foreclosures were down 34.0% from 2011, and for the first quarter of 2013 are down 50.9%. 2012 Notices of Default were down by 17.3% from the prior year, and for the first quarter 2013 are down 64.7%. As foreclosures and notices of default begin to decline rapidly, the County is seeing a rise in the median price of a home. The chart below shows the increase in the median price over the last ten months. Prior to that the median price had been stable, at approximately \$150,000, for the 34 month period between September 2009 and June 2012. The median price remains affordable for 76% of local families.

**COUNTY OF SAN BERNARDINO  
MEDIAN HOME PRICE BY MONTH  
JANUARY 2005 THROUGH APRIL 2013**

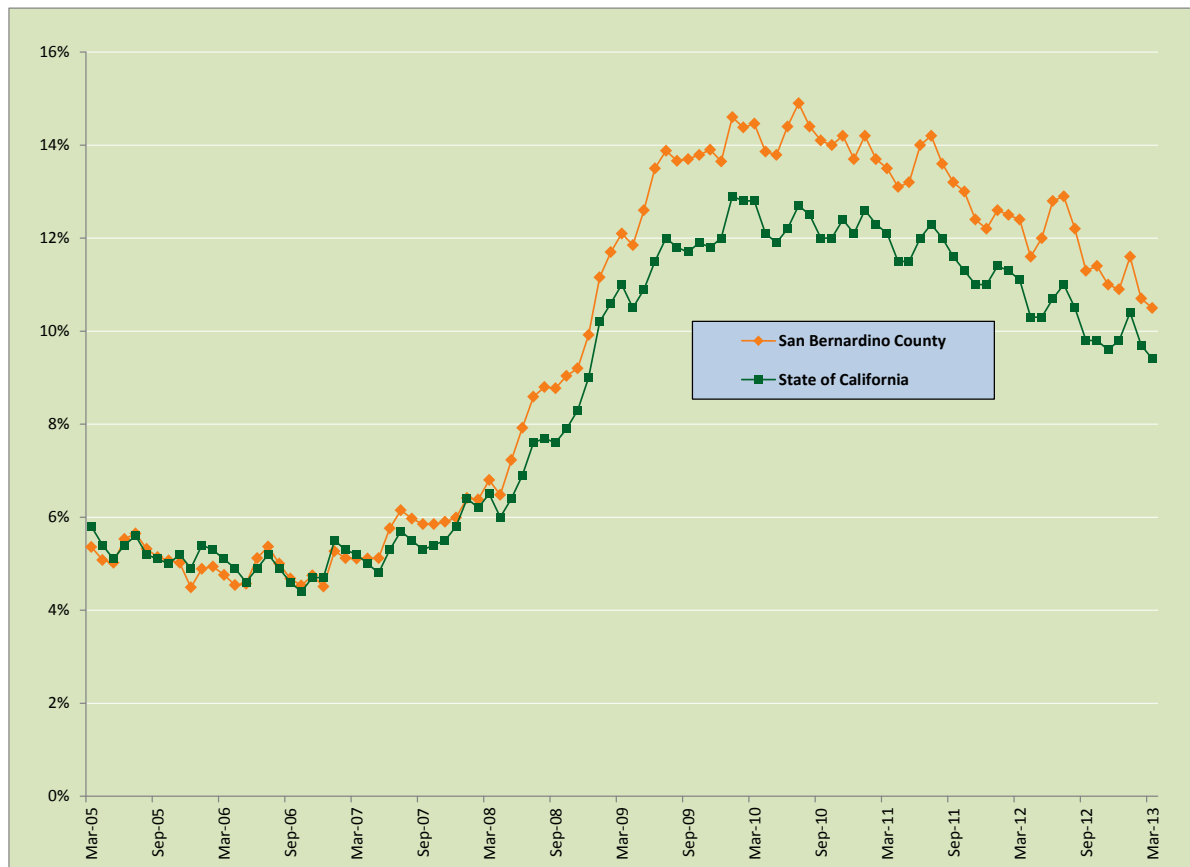


Source: Dataquick



In addition to the decline in property values, the loss of jobs in the County has led to high levels of unemployment, as shown in the chart below. Inland Empire Job losses from 2008 through 2010 totaled 148,500, in large part due to the downturn in the construction sector. County unemployment reached 14.8% in July 2010. However conditions are beginning to improve. 2011 saw job gains of 4,833 followed by a gain of 23,025 in 2012, and job growth for 2013 is forecasted at 28,300. Unemployment has declined but remains high at 10.5% as of March 2013, which compares to unemployment rates for the State and the United States of America which were 9.4% and 7.6%, respectively.

**COUNTY OF SAN BERNARDINO  
UNEMPLOYMENT RATES  
STATE OF CALIFORNIA AND SAN BERNARDINO COUNTY  
MARCH 2005 THROUGH MARCH 2013**



Source: CA Employment Development Department

**AUTOMATED SYSTEMS DEVELOPMENT**

The Automated Systems Development budget unit is a restricted general fund that was established in 2011-12 to fund the development, upgrade, and/or replacement of the County's Financial Accounting System (FAS), a core information technology system; and for other future developments.

The new FAS project is a countywide collaborative effort to replace the existing financial accounting system that was implemented over 20 years ago and does not provide either the efficiencies or information for managing County functions that modern systems provide. In 2011-12, the Board of Supervisor's approved a \$6.0 million allocation of discretionary general funding to fund this project, and added an additional \$6.0 million mid-year. Although it hasn't been placed in this budget unit, an additional \$13.0 million in funding has been assigned for this project in County contingencies as part of the 2013-14 Recommended budget. A Request for Information was released in July 2011 and the resulting information was utilized to prepare a scope of services. In 2012-13, the County contracted with the Government Finance Officers Association, which has a history of successful government accounting information system installations, to oversee the Request for Proposal process for the County.

Requirements of \$11.9 million represents capitalized software and application development costs associated with the new FAS project.

Below is a table detailing budgeted appropriation for this unit in 2013-14.

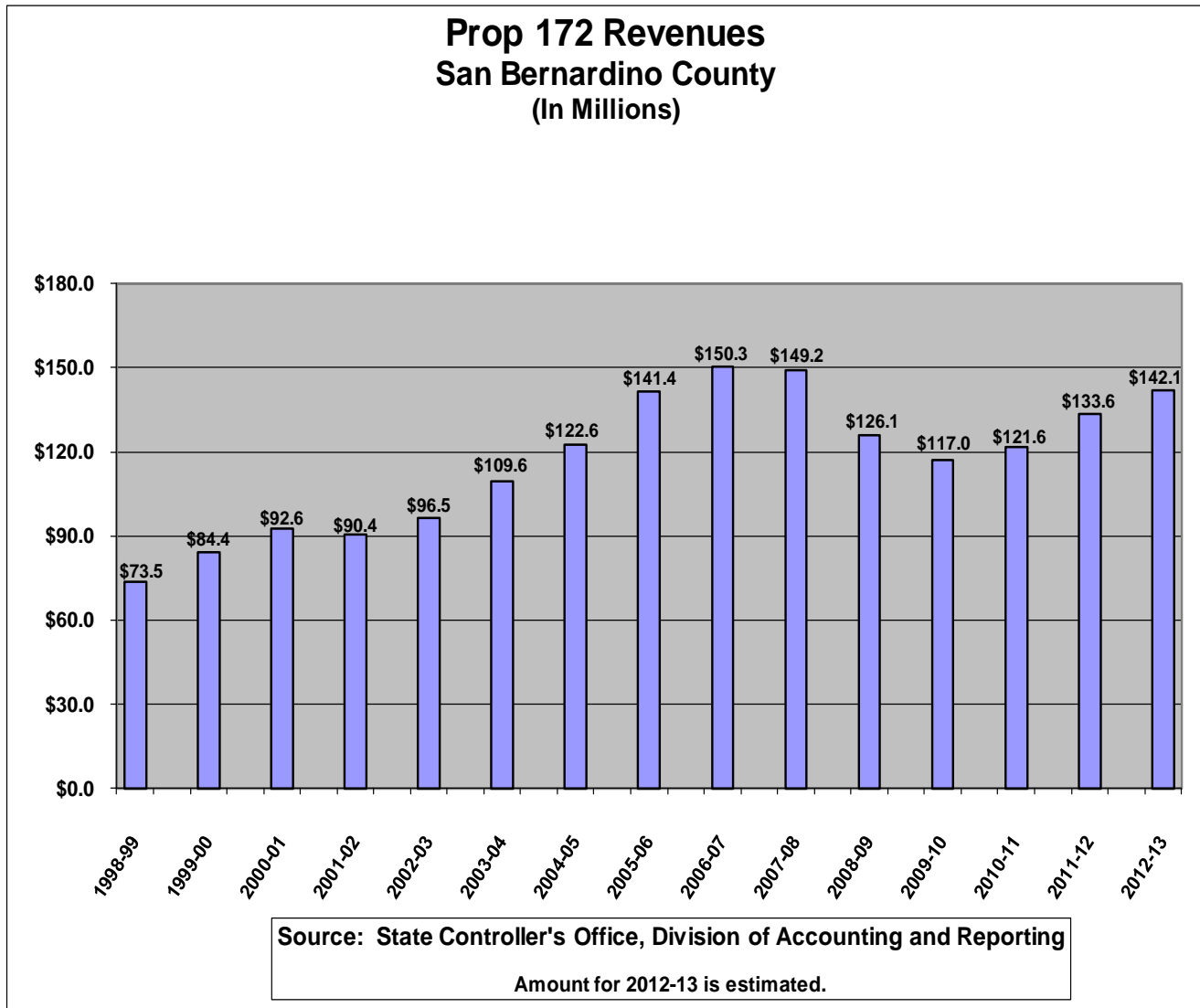
	2009-10 Actual	2010-11 Actual	2011-12 Actual	2012-13 Estimate	2012-13 Modified Budget	2013-14 Recommended Budget	Change From 2012-13 Modified Budget
<b><u>Requirements</u></b>							
Staffing Expenses	0	0	0	0	0	0	0
Operating Expenses	0	0	0	100,000	500,000	400,000	(100,000)
Capital Expenditures	0	0	0	0	11,500,000	11,500,000	0
Contingencies	0	0	0	0	0	0	0
Total Exp Authority	0	0	0	100,000	12,000,000	11,900,000	(100,000)
Reimbursements	0	0	0	0	0	0	0
Total Appropriation	0	0	0	100,000	12,000,000	11,900,000	(100,000)
Operating Transfers Out	0	0	0	0	0	0	0
Total Requirements	0	0	0	100,000	12,000,000	11,900,000	(100,000)
<b><u>Sources</u></b>							
Taxes	0	0	0	0	0	0	0
Realignment	0	0	0	0	0	0	0
State, Fed or Gov't Aid	0	0	0	0	0	0	0
Fee/Rate	0	0	0	0	0	0	0
Other Revenue	0	0	0	0	0	0	0
Total Revenue	0	0	0	0	0	0	0
Operating Transfers In	0	0	0	0	0	0	0
Total Sources	0	0	0	0	0	0	0
Fund Balance	0	0	0	100,000	12,000,000	11,900,000	(100,000)
Budgeted Staffing					0	0	0



**PROPOSITION 172**

Proposition 172 (Prop 172), which became effective January 1, 1994, placed a one-half percent sales tax rate in the state's constitution and required that revenue from the additional one-half percent sales tax be used only for local public safety activities, which include but are not limited to sheriff, police, fire protection, county district attorney, and county corrections. Funding from Prop 172 enabled counties and cities to substantially offset the public safety impacts of property tax losses resulting from the State property tax shift to the Educational Revenue Augmentation Fund (ERAF).

The one-half percent sales tax imposed by Prop 172 is collected by the state and apportioned to each county based on its proportionate share of statewide taxable sales. In accordance with Government Code 30055, of the total Prop 172 revenue allocated to San Bernardino County, 5% is distributed to cities affected by the property tax shift and 95% remains within the County. The following chart reflects the annual amount of Prop 172 revenues received by San Bernardino County, excluding the cities' distributions, for the past 15 years.



On August 22, 1995, the County of San Bernardino Board of Supervisors approved the recommendation that defined the following departments as the public safety services designated to receive the County's 95% share of Prop 172 revenue, consistent with Government Code Section 30052, and authorized the Auditor-Controller/Treasurer/Tax Collector to deposit the County's portion of the Prop 172 revenue as follows:

➤	Sheriff/Coroner/Public Administrator	70.0%
➤	District Attorney	17.5%
➤	Probation	12.5%

Prop 172 revenue currently represents a significant funding source for the Sheriff/Coroner/Public Administrator, District Attorney, and Probation departments. Each year, as part of the budget development process, Prop 172 projections are developed based on staff analysis of revenue trends and forecasts provided by an outside economist.

On February 13, 2007, the Board of Supervisors approved a policy which requires the County to maintain an appropriation for contingency for Prop 172 funds targeted at no less than 10% of the current year's budgeted Prop 172 revenues. This 10% contingency was created to ensure funding for these public safety departments should the County experience Prop 172 revenue shortfalls in the future. These contingencies are maintained for each respective department within the Prop 172 restricted general fund.

The chart below illustrates the beginning and ending estimated fund balances of the Prop 172 restricted general fund, budgeted revenue and departmental usage for 2013-14, the required 10% contingency target, and the amount above that target.

	<b>Estimated Beginning Fund Balance</b>	<b>2013-14 Budgeted Revenue</b>	<b>2013-14 Budgeted Usage</b>	<b>Estimated Ending Fund Balance</b>	<b>10% Contingency</b>	<b>Amount in Excess of Required Contingency</b>
<b>Sheriff</b>	16,384,503	102,780,000	(107,690,000)	11,474,503	10,278,000	1,196,503
<b>District Attorney</b>	4,097,825	25,697,500	(26,672,500)	3,122,825	2,569,750	553,075
<b>Probation</b>	5,668,733	18,372,500	(18,337,500)	5,703,733	1,837,250	3,866,483
<b>Total</b>	<b>26,151,061</b>	<b>146,850,000</b>	<b>(152,700,000)</b>	<b>20,301,061</b>	<b>14,685,000</b>	<b>5,616,061</b>



**1991 REALIGNMENT**

In 1991, the State shifted responsibility for a number of mental health, social services, and health programs to counties. This shift, known as 1991 Realignment, resulted in the creation of two dedicated funding streams to pay for the shifted services: a ½ cent Sales Tax and 24.33% of Vehicle License Fee (VLF) revenues made available by a change in the depreciation schedule for vehicles. Pursuant to SB 1096, Chapter 21, Statutes of 2004, the Vehicle License Fee was reduced from 2.0% of the market value of a vehicle to 0.65% of the market value. SB 1096 also changed the percentage of the VLF revenue allocated to Realignment from 24.33% to 74.9%. This change did not result in increased VLF revenues to 1991 Realignment, but simply reflects the same funding amount expressed as a percentage of the reduced revenue collected. Each of the three service areas identified was required to have their own separate accounts established and each of those service areas receive a different share of statewide 1991 Realignment revenue.

Within the mental health area, the programs the County is now responsible for are: community-based mental health programs, State Hospital services for County patients, and Institutions for Mental Disease. Within the social services area, the programs the County is now responsible for are: the County revenue stabilization program and the County justice subvention program. Within the health area, the programs the County is now responsible for are: AB8 County health services, local health services, medically indigent services, and the County medical services program.

In addition to these program responsibility shifts, a number of programs had changes made to their cost sharing ratios. For example, prior to 1991 Realignment, Foster Care costs were funded by 95% State resources and 5% County resources. Now Foster Care is funded by 40% State resources and 60% County resources, which is a significant impact to the County.

The 1991 Realignment program has some flaws in its design that adversely impact County of San Bernardino revenues. First, San Bernardino County is an “under equity county,” meaning that the County receives a lesser share of revenue relative to other counties based on population and estimated poverty population. Revenue distributions among counties were determined by expenditures in the programs that were transferred just prior to the adoption of Realignment. San Bernardino County was under equity in those programs. 1991 Realignment did attempt to address the inequity issue, but the effort fell short. The County continues to be under equity at this time and barring any legislative action the amount of inequity will increase over time. As growth occurs in the revenue streams, incremental new funding is distributed on existing sharing arrangements between the counties. The counties that are already over equity get a higher percentage of the new revenue while those that are under equity get less.

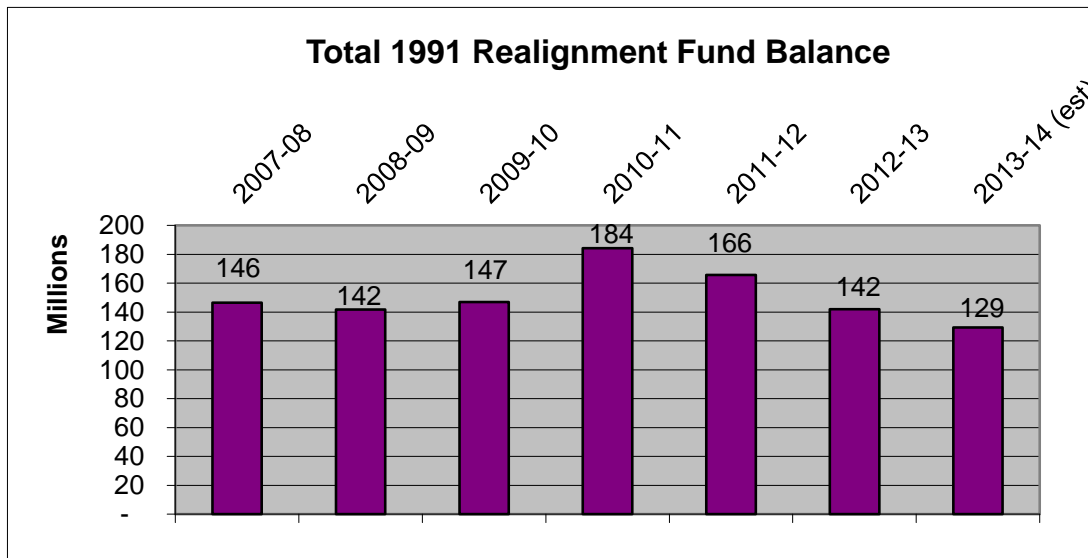
In addition to the under equity issue is the fact that the demand for the services the County is providing and the revenue streams funding them are both sensitive to the economy. When the economy does poorly, demand for services is high, but revenues under perform. When the economy is doing well, demand for services is reduced, sales taxes and vehicle license fees revenues are high, and growth in these funding streams is experienced. Social Services has priority claim on any sales tax growth received. If the growth is sufficient to cover the increasing Social Services caseload costs, then anything remaining is distributed to the Mental Health and Health 1991 Realignment funds.

**Budgetary Note:** Financial information presented in this 1991 Realignment budget section is consistent with state reporting requirements for the 1991 Realignment funds. The state’s reporting requirements are not consistent with the County’s implementation of GASB 34 as it relates to revenue accrual. As such, within the County financial accounting system, an adjustment will be made to show the correct revenues in accordance with the County accrual procedures. This is a revenue timing issue only as a result of delays by the state in distributing sales tax growth revenue.





The graph below shows the history of fund balance for all Realignment funds.



During 2008-09, revenue shortfalls of 13.2% and 8.5% in sales tax and vehicle license fee revenue, respectively, offset with decreased departmental usage resulted in a slight decrease in fund balance of \$4 million for the period ending June 30, 2009.

During 2009-10, revenue shortfalls continued at 3.69% and 6.73% in sales tax and vehicle license fee revenue, respectively. These shortfalls were offset by even greater departmental savings, resulting in a slight increase in fund balance of \$5 million for the period ending June 30, 2010.

During 2010-11, sales tax increased by 3.59% increase while VLF declined by 1.50% as compared to prior year revenue. Those factors would have normally caused a decline in fund balance given departmental needs. However, the 1991 Health Realignment fund experienced a one-time savings due to state legislation regarding hospital fees. The net effect was an increase to overall fund balance of \$37 million.

Revenues for 2011-12 came in much stronger than anticipated. State-wide, sales tax increased 10% but VLF continued to decline but at a much smaller rate with a projected decline of 10.2%. At the same time the demands for County services continue to increase as economic recovery and job creation remain sluggish. As a result, departmental usage of realignment funds outpaced revenues by \$18 million.

In 2012-13, sales tax revenues have continued to come in strong and are up nearly 8.3% through April. Even more encouraging is that Vehicle License Fees are increasing as well and are up 12.7% through April 2013. However, program costs continue to increase as demands for services remain high. As a result, departmental usage continues to exceed budgeted revenues, resulting in an anticipated decrease in fund balance of \$24 million for the period ending June 30, 2013.

For 2013-14, the state is projecting sales tax revenues to experience continued strong growth in the proximity of 9% and is also optimistic about Vehicle License Fees. However, the County is not experiencing a corresponding decrease in demand for services. Current projections predict that 1991 Realignment Fund balances will be drawn down by an additional \$13 million in 2013-14. So, while the rate of draw-down is declining, 1991 Realignment will likely experience its' third consecutive year of draw-down in excess of \$10 million.

	ACTUAL 2011-12	MODIFIED 2012-13	ESTIMATED 2012-13	RECOMMENDED 2013-14
Beginning Fund Balance	184,193,680	165,673,369	165,673,369	142,056,267
Revenue	195,008,092	176,945,801	179,828,698	194,589,200
Departmental Usage	213,528,403	210,545,297	203,445,801	207,203,363
Ending Fund Balance	165,673,369	132,073,873	142,056,267	129,442,104
Change in Fund Balance	(18,520,311)	(33,599,496)	(23,617,103)	(12,614,163)

For 2013-14, departmental usage of \$207.2 million exceeds the revenue projection of \$194.6 million, resulting in a net usage of \$12.6 million in total fund balance. Expenditure levels continue to be monitored closely, with specific measures being developed to reduce overall departmental usage until such time as revenue growth is realized and fund balance is restored.

#### SUMMARY OF 1991 REALIGNMENT BUDGET UNITS FOR 2013-14

	Mental Health	Social Services	Health	Total
Estimated Beginning Fund Balance	30,885,611	44,843,958	66,326,698	142,056,267
Budgeted Revenue	46,683,964	96,591,257	51,313,979	194,589,200
Budgeted Departmental Usage	50,909,398	98,981,119	57,312,846	207,203,363
Budgeted 10% Transfers	-	-	-	-
Estimated Ending Fund Balance	26,660,177	42,454,096	60,327,831	129,442,104
Estimated Change in Fund Balance	(4,225,434)	(2,389,862)	(5,998,867)	(12,614,163)
Estimated Ending Fund Balance	26,660,177	42,454,096	60,327,831	129,442,104
10% Contingency Target	4,668,396	9,659,126	5,131,398	19,458,920
Available Ending Fund Balance	21,991,781	32,794,970	55,196,433	109,983,184

The 1991 Realignment budget units do not directly spend funds or provide service. They are strictly funding budget units with the actual expenditures occurring within the operating budget units of the departments that receive Realignment revenue.

The 1991 Realignment legislation does allow for some flexibility in usage of funds at the County level. Upon action by the Board of Supervisors, a County can transfer 10% of a given year's revenue from one fund to another. San Bernardino County has used the provision repeatedly over the years to help support either the health or social services programs. The County did not do a 10% transfer in the prior three fiscal years and is not budgeting one for 2013-14. However, in the event that such transfer is needed, Board of Supervisors approval is required.

The breakdown of the fund balance calculations and departmental usage for each of the three individual 1991 Realignment funds are on the following pages.



<b>Mental Health</b>
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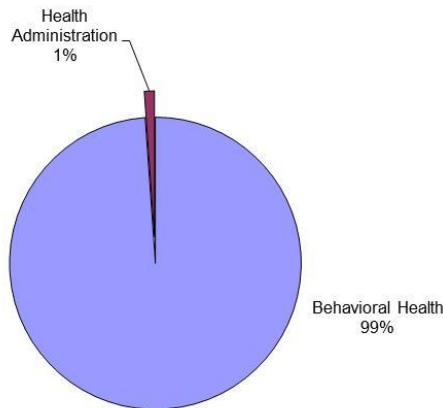
	ACTUAL 2011-12	MODIFIED 2012-13	ESTIMATED 2012-13	RECOMMENDED 2013-14
Beginning Fund Balance	28,858,874	35,095,277	35,095,277	30,885,611
Revenue	50,360,646	52,041,796	46,683,964	46,683,964
Departmental Usage	44,124,243	51,616,492	50,893,630	50,909,398
10% Transfers	-	-	-	-
Ending Fund Balance	35,095,277	35,520,582	30,885,611	26,660,177
Change in Fund Balance	6,236,403	425,305	(4,209,666)	(4,225,434)

For 2013-14, the Mental Health fund is budgeted to decrease \$4.2 million in fund balance. The Department of Behavioral Health is perhaps the department most negatively affected by continuing realignment efforts by the State. While sales tax is projected to increase statewide, the allocation provided to the 1991 Mental Health Realignment account is a fixed amount. A strong year in 2010-11 that saw a substantial increase in fund balance should allow the fund to weather the unpredictability of revenue sources over the next few years.

<b>Breakdown of Departmental Usage of Mental Health 1991 Realignment</b>
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	ACTUAL 2011-12	MODIFIED 2012-13	ESTIMATED 2012-13	RECOMMENDED 2013-14
Behavioral Health	43,751,603	51,167,106	50,529,987	50,342,753
Health Administration	372,640	449,386	363,643	566,645
Total Departmental Usage	44,124,243	51,616,492	50,893,630	50,909,398

2013-14 Recommended



<b>Social Services</b>
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	ACTUAL 2011-12	MODIFIED 2012-13	ESTIMATED 2012-13	RECOMMENDED 2013-14
Beginning Fund Balance	78,805,214	54,109,512	54,109,512	44,843,958
Revenue	88,096,997	75,450,674	88,008,082	96,591,257
Departmental Usage	112,792,699	102,598,525	97,273,636	98,981,119
10% Transfers	-	-	-	-
Ending Fund Balance	54,109,512	26,961,661	44,843,958	42,454,096
Change in Fund Balance	(24,695,702)	(27,147,851)	(9,265,554)	(2,389,862)

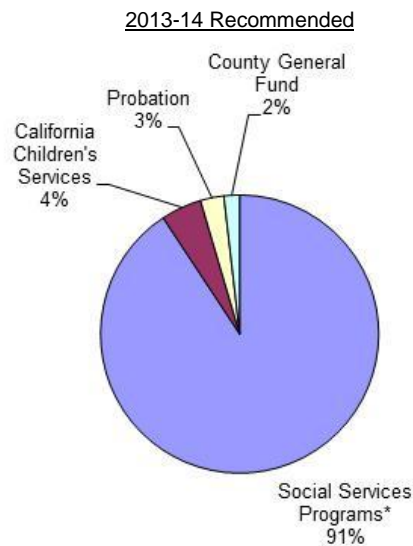
Social Services realignment revenue is composed primarily of sales tax. The split is currently 96% sales tax and 4% vehicle license fees.

For 2013-14, budgeted expense and ongoing revenue are expected to result in usage of fund balance of \$2.4 million. In addition, budgeted departmental usage for 2013-14 continues to outpace revenues, and as such, will be monitored closely to ensure that fund balance is maintained at adequate levels.

<b>Breakdown of Departmental Usage of Social Services 1991 Realignment</b>
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	ACTUAL 2011-12	MODIFIED 2012-13	ESTIMATED 2012-13	RECOMMENDED 2013-14
Social Services Programs*	104,673,519	93,521,925	89,247,292	89,807,646
California Children's Services	3,619,550	4,576,970	3,526,714	4,673,843
Probation	2,700,630	2,700,630	2,700,630	2,700,630
County General Fund	1,799,000	1,799,000	1,799,000	1,799,000
Total Departmental Usage	112,792,699	102,598,525	97,273,636	98,981,119

\* Soc. Svcs. Programs include: Foster Care (AAB BHI), Administrative Claim Matches (DPA), Aid to Adoptive Children (AAB ATC) and Health Administration Support.



<b>Health</b>
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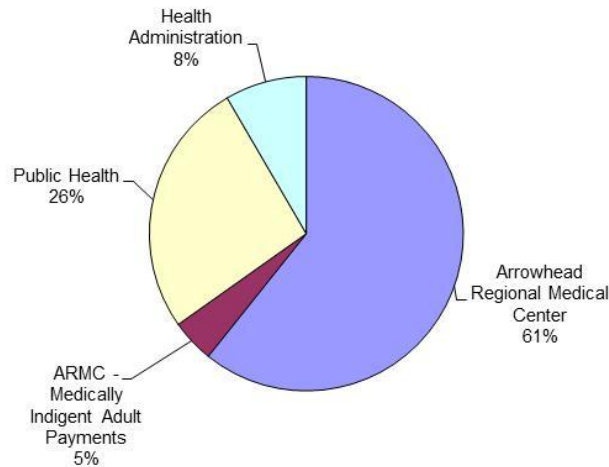
	ACTUAL 2011-12	MODIFIED 2012-13	ESTIMATED 2012-13	RECOMMENDED 2013-14
Beginning Fund Balance	76,529,592	76,468,580	76,468,580	66,326,698
Revenue	56,550,449	49,453,331	45,136,652	51,313,979
Departmental Usage	56,611,461	56,330,281	55,278,535	57,312,846
10% Transfers	-	-	-	-
Ending Fund Balance	76,468,580	69,591,631	66,326,698	60,327,831
Change in Fund Balance	(61,012)	(6,876,950)	(10,141,883)	(5,998,867)

For 2013-14, the Health fund is budgeted to spend \$6 million of fund balance. Revenue is projected to increase, however departmental usage continues to outpace revenues. Significant savings in Fiscal Year 2010-11 built a substantial fund balance that should allow the fund to be viable until the economy fully rebounds.

<b>Breakdown of Departmental Usage of Health 1991 Realignment</b>
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	ACTUAL 2011-12	MODIFIED 2012-13	ESTIMATED 2012-13	RECOMMENDED 2013-14
Arrowhead Regional Medical Center	34,820,000	34,820,000	34,820,000	34,820,000
ARMC - Medically Indigent Adult Payments	2,550,000	2,550,000	2,550,000	2,550,000
Public Health	11,887,793	14,164,292	13,110,309	15,116,020
Health Administration	7,353,668	4,795,989	4,798,226	4,826,826
Total Departmental Usage	56,611,461	56,330,281	55,278,535	57,312,846

2013-14 Recommended



## **2011 REALIGNMENT**

In 2011, the state addressed prison over-crowding by shifting custodial responsibility of non-violent, non-sex, and non-sex-against-children ('Triple-Nons') offenders to local jails. In addition, the parole function of the state was delegated to county Probation departments; parole revocation hearings were shifted to the local jurisdictions and cases assigned to the District Attorney and Public Defender. The state also realigned Juvenile Re-Entry and Trial Court Security by placing 100% of the financial burden of those programs to the county. The justification for the 'Public Safety Realignment' is that it gives the county flexibility to better provide mental health and social services to the recently incarcerated in the hopes of reducing recidivism and having the net effect of lowering both jail and prison population.

In conjunction with Public Safety Realignment (AB 109), the state also shifted full financial burden of many social service and mental health programs to the County including: Adult Protective Services, Foster Care, Child Welfare Services, Child Abuse Prevention and Intervention, Drug Court, Medi-Cal substance abuse treatment programs, and the Maintenance-of-Effort (MOE) for the CalWORKs. The County was responsible for delivery of these programs before realignment but with the shift the state would no longer participate in the share of cost.

While the state no longer shares in the cost it has dedicated a portion of the state sales tax (1.0625%) revenue along with a portion of vehicle license fees for these realigned programs. However, realignment of sales tax and vehicle license fees also puts the County at the mercy of the business cycle as funding will rise and fall in direct correlation to the state's economy. Exacerbating the potential problem, as with 1991 Realignment, when the economy is doing well demand for services goes down but when the economy begins to slump demand for services rise while revenues decrease. This relationship has been partially mitigated in the past due to the state's share of cost. However, with that no longer being applicable the County is more vulnerable to the market.

Further complicating matters is the state's decision to direct funding from 1991 Realignment for Mental Health Services to the CalWORKs MOE portion of 2011 Realignment. Sales tax and vehicle license fee revenue that used to be directed to the fund for Mental Health matching funds is now going to the CalWORKs MOE fund. The Mental Health funding now comes in the form of a defined monthly amount taken off the top of 2011 Realignment revenues. Government code establishes a statewide amount of \$1.121 billion per year directed to the Mental Health Fund with future growth in the CalWORKs MOE fund to be directed to Mental Health as well.

In November 2012, the California voters passed Proposition 30 which increased both Sales and Income Tax. The measure also dedicated a funding stream for 2011 Realignment in the State Constitution. That process has mitigated the revenue stream doubts that existed with the onset of 2011 Realignment but, funding will now, as mentioned earlier, be directly dependent on the health of the economy.

The 2011 Realignment budget units mirror 1991 Realignment in that they do not directly spend or provide service. They are strictly funding budget units with the actual expenditures occurring within the operating budget units of the departments that receive 2011 Realignment revenue.

As with 1991 Realignment, the three service areas of 2011 Realignment (Law Enforcement Services, CalWORKs MOE, and Support Services) have each been assigned its own account. The Law Enforcement Services account has four sub-accounts for Trial Court Security, Community Corrections, the District Attorney and Public Defender, and Juvenile Justice. Human Services transfers funding from the CalWORKs MOE account to the fund used to pay benefits to CalWORKs clients. The Support Services account has two sub-accounts for Behavioral Health and Protective Services. The Department of Behavioral Health allocates the sub-account funding to the Drug Court and the Medi-Cal substance abuse treatment programs while Human Services allocates the Protective Services sub-account to the appropriate social service program. The following pages provide more detail of the three service areas of 2011 Realignment.



**OF 2011 REALIGNMENT BUDGET UNITS FOR 2013-14**

Total departmental usage of \$298.2 million for Fiscal Year 2013-14 is reflected in the table below. Expenditure levels will be monitored closely for accountability should the state implement reporting requirements for 2011 Realignment revenues.

**SUMMARY OF 2011 REALIGNMENT BUDGET UNITS FOR 2013-14**

	Law Enforcement	CalWORKs MOE	Support Services	Total
Estimated Beginning Fund Balance	\$14,532,866	\$0	\$1,249,435	\$15,782,301
Budgeted Revenue	\$101,376,195	\$53,523,959	\$143,312,726	\$298,212,880
Budgeted Departmental Usage	\$101,376,195	\$53,523,959	\$143,312,726	\$298,212,880
Estimated Change in Fund Balance	\$0	\$0	\$0	\$0
Estimated Ending Fund Balance	\$14,532,866	\$0	\$1,249,435	\$15,782,301

Historical information on 2011 Realignment funding is included in the table below, and detailed information on the three service areas are included on the following pages.

**BUDGET HISTORY FOR ALL 2011 REALIGNMENT BUDGET UNITS**

	ACTUAL 2011-12	MODIFIED 2012-13	ESTIMATED 2012-13	RECOMMENDED 2013-14
Beginning Fund Balance	0	15,782,301	15,782,301	15,782,301
Revenue	196,874,566	274,828,832	274,828,832	298,212,880
Departmental Usage	181,092,265	274,828,832	274,828,832	298,212,880
Ending Fund Balance	15,782,301	15,782,301	15,782,301	15,782,301
Change in Fund Balance	15,782,301	0	0	0



**LAW ENFORCEMENT SERVICES**

As mentioned in the overview, the Law Enforcement Services fund has four (4) sub-accounts: Trial Court Security (administered by the Sheriff's Department); District Attorney/Public Defender (which share the funds equally); Juvenile Justice (administered by Probation); and Community Corrections. The Community Corrections sub-account is administered by the Local Community Corrections Partnership which consists of a membership defined by Penal Code Section 1230 (including the Chief Probation Officer, the Sheriff/Coroner/Public Administrator, the District Attorney, the Public Defender, and other Social Services Executives). The Local Community Corrections Partnership determines how to allocate funding for the Community Corrections sub-account in response to proposals submitted by various departments to fund positions and/or programs beneficial to the implementation of Public Safety Realignment. Departments that receive funding may vary from year to year and funding levels can differ depending on needs and available resources.

2011 Realignment required each county to develop an implementation plan approved by the Local Community Corrections Partnership and the Board of Supervisors. Since the plan included a significant number of additional positions, an appropriation savings occurred because this new staff required extensive background checks. As a result, a fund balance of \$14.5 million existed in the Law Enforcement fund at the end of Fiscal Year 2011-12. Detail of the fund balance for Law Enforcement Services is reflected in the following table:

<b>LAW ENFORCEMENT SERVICES</b>				
	ACTUAL 2011-12	MODIFIED 2012-13	ESTIMATED 2012-13	RECOMMENDED 2013-14
Beginning Fund Balance	\$0	\$14,532,866	\$14,532,866	\$14,532,866
Revenue	\$63,727,866	\$98,607,259	\$98,607,259	\$101,376,195
Departmental Usage	\$49,195,000	\$98,607,259	\$98,607,259	\$101,376,195
Ending Fund Balance	\$14,532,866	\$14,532,866	\$14,532,866	\$14,532,866
Change in Fund Balance	\$14,532,866	\$0	\$0	\$0

Beginning in Fiscal Year 2015-16 a Local Innovation Account will be established by transferring ten-percent (10%) of growth from the subaccounts in the Law Enforcement fund. Funds in the Local Innovation Account can be appropriated for use consistent with any of the subaccounts.

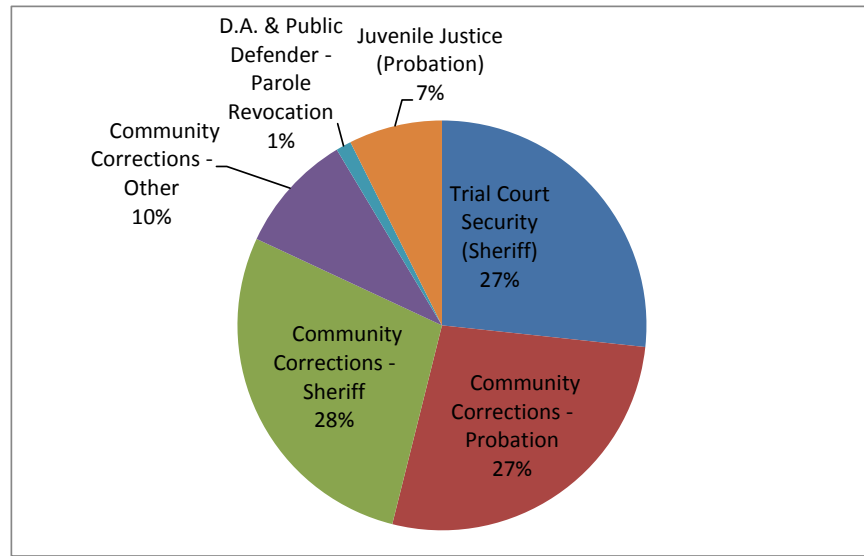
Usage of 2011 Realignment funding for Law Enforcement Services is broken out in the table and chart on the next page:





	ACTUAL 2011-12	MODIFIED 2012-13	ESTIMATED 2012-13	RECOMMENDED 2013-14
Trial Court Security (Sheriff)	\$26,084,647	\$27,193,409	\$27,193,409	\$27,053,068
Community Corrections:				
Probation	\$7,933,316	\$26,306,019	\$26,306,019	\$27,597,924
Sheriff/Coroner/Public Administrator	\$3,903,668	\$25,128,163	\$25,128,163	\$28,407,422
District Attorney	\$895,305	\$1,434,913	\$1,434,913	\$2,843,595
Public Defender	\$202,542	\$1,014,728	\$1,014,728	\$2,169,562
Public Health	\$6,616	\$0	\$0	\$106,359
Aging and Adult Services	\$0	\$82,169	\$82,169	\$56,250
Behavioral Health	\$238,540	\$7,460,795	\$7,460,795	\$4,124,828
Workforce Development	\$0	\$0	\$0	\$159,003
Transitional Assistance	\$0	\$0	\$0	\$6,695
Human Resources	\$92,223	\$126,409	\$126,409	\$131,242
D.A. & Public Defender - Parole Revocation (50/50)	\$924,293	\$1,050,176	\$1,050,176	\$1,229,063
Juvenile Justice (Probation)	\$8,913,850	\$8,810,478	\$8,810,478	\$7,491,184
Total Departmental Usage	\$49,195,000	\$98,607,259	\$98,607,259	\$101,376,195

2013-14 Recommended

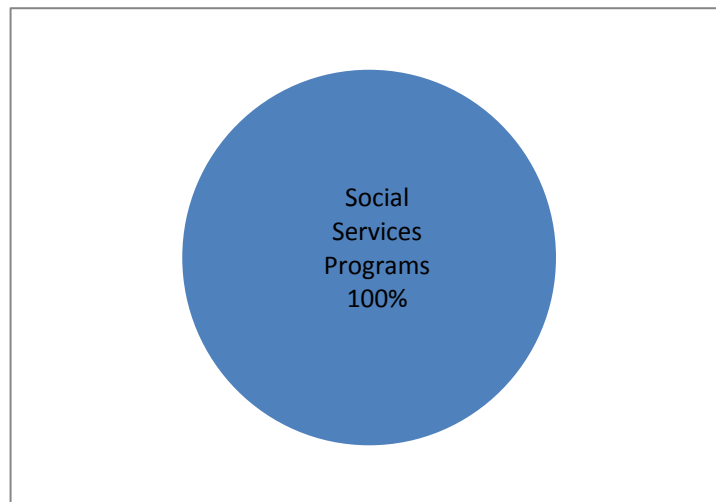


**CALWORKs MOE**

Funding for the CalWORKs MOE comes from both Sales Tax and Vehicle License Fee revenues. These funds originally funded Mental Health but, as part of 2011 Realignment the funds were diverted to CalWORKs and Mental Health now receives a monthly flat amount from the new sales tax revenues brought in with the passage of Proposition 30. In the future, there is not expected to be any fund balance. Once funds are received, they will be immediately transferred to the fund used for assistance payments to CalWORKs clients. Below is additional historical detail on the CalWORKs MOE fund.

<b>CALWORKs MOE</b>				
	ACTUAL 2011-12	MODIFIED 2012-13	ESTIMATED 2012-13	RECOMMENDED 2013-14
Beginning Fund Balance	\$0	\$0	\$0	\$0
Revenue	\$42,893,368	\$48,731,362	\$48,731,362	\$53,523,959
Departmental Usage	\$42,893,368	\$48,731,362	\$48,731,362	\$53,523,959
Ending Fund Balance	\$0	\$0	\$0	\$0
Change in Fund Balance	\$0	\$0	\$0	\$0

<b>BREAKDOWN OF CALWORKs MOE 2011 REALIGNMENT USAGE</b>				
	ACTUAL 2011-12	MODIFIED 2012-13	ESTIMATED 2012-13	RECOMMENDED 2013-14
Social Services Programs	42,893,368	48,731,362	48,731,362	53,523,959
Total Departmental Usage	42,893,368	48,731,362	48,731,362	53,523,959

2013-14 Recommended

**SUPPORT SERVICES**

The 2011 Realignment legislation allows for transfers between the two subaccounts (Behavioral Health and Protective Services) in the Support Services fund. Ten percent of the amount deposited to the subaccount with the lowest balance can be transferred in from the other subaccount. The Board of Supervisors also has the discretion to establish a Support Services Reserve Subaccount by up to five-percent (5%) from each subaccount's previous year's deposits. Additional historical detail of the Support Services fund is included in the tables below.

<b>SUPPORT SERVICES</b>				
	ACTUAL 2011-12	MODIFIED 2012-13	ESTIMATED 2012-13	RECOMMENDED 2013-14
Beginning Fund Balance	\$0	\$1,249,435	\$1,249,435	\$1,249,435
Revenue	\$90,253,333	\$127,490,211	\$127,490,211	\$143,312,726
Departmental Usage	\$89,003,898	\$127,490,211	\$127,490,211	\$143,312,726
Ending Fund Balance	\$1,249,435	\$1,249,435	\$1,249,435	\$1,249,435
Change in Fund Balance	\$1,249,435	\$0	\$0	\$0

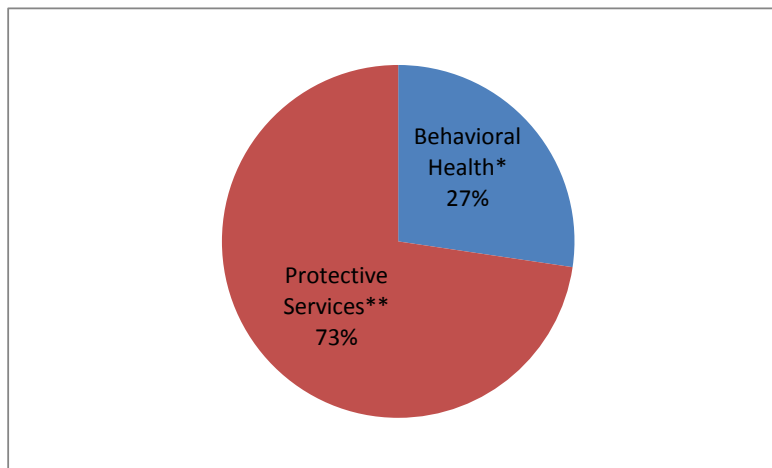
The Support Services fund has two subaccounts: Behavioral Health and Protective Services. Current projections do not reflect any growth in fund balance.

<b>BREAKDOWN OF SUPPORT SERVICES 2011 REALIGNMENT USAGE</b>				
	ACTUAL 2011-12	MODIFIED 2012-13	ESTIMATED 2012-13	RECOMMENDED 2013-14
Behavioral Health*	\$5,387,311	\$32,493,962	\$32,493,962	\$39,172,367
Protective Services**	\$83,616,587	\$94,996,249	\$94,996,249	\$104,140,359
Total Departmental Usage	\$89,003,898	\$127,490,211	\$127,490,211	\$143,312,726

\*The Behavioral Health sub-account funds Drug Court and Rehabilitative Services.

\*\*The Protective Services sub-account funds Adult Protective Services, Foster Care Administration, Foster Care Assistance, Child Welfare Services, Aging & Adult Administration, Aging & Adult Assistance, and Child Abuse Prevention.

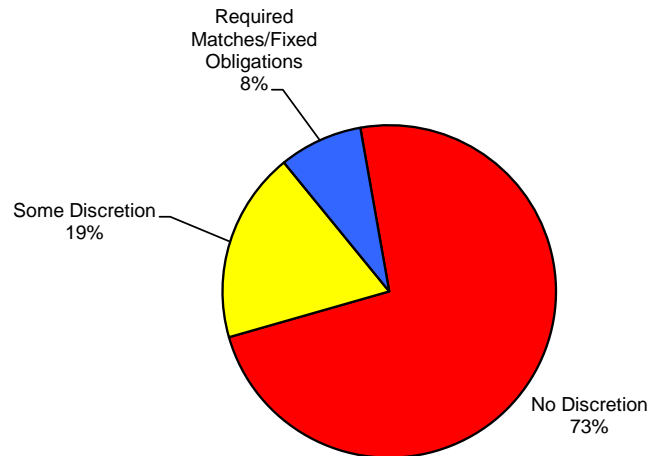
2013-14 Recommended



## COUNTYWIDE DISCRETIONARY REVENUE

The entire general fund budget including operating transfers in is \$2.6 billion, however, only \$0.50 billion is truly discretionary as seen in this pie chart.

### 2013-14 Recommended Budget General Fund Spending



**SPENDING WHERE THERE IS NO DISCRETION. INCLUDES:**

**1,892,624,057**

Welfare costs reimbursed by state and federal monies (\$957.3 million)

Other program costs funded by program revenues such as user fees (\$935.3 million)

**REQUIRED HEALTH AND WELFARE MATCHES AND OTHER FIXED OBLIGATIONS:**

**202,724,013**

**SPENDING WHERE THERE IS DISCRETION. INCLUDES:**

**498,932,890**

Reserve Contributions (\$7.0 million)

Contingencies Contributions (\$75.6 million)

Law and justice program costs funded by local revenues (\$290.2 million)

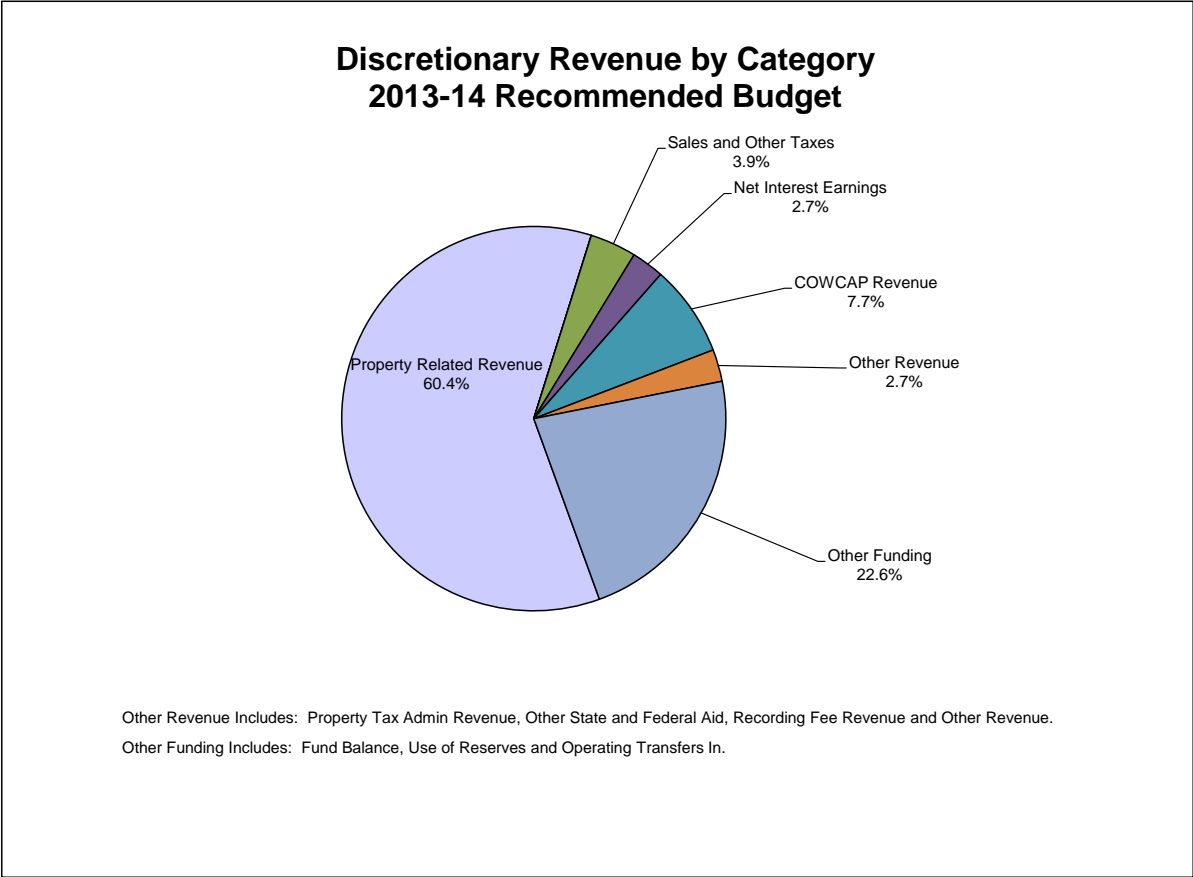
All other program costs funded by local revenues (\$126.1 million)

**TOTAL: \$2,594,280,960**

The countywide discretionary revenue is \$701,656,903 and is first obligated to pay for the required health and welfare matches and other fixed obligations, which total \$202,724,013. The remaining amount of \$498,932,890 is available to fund departmental budgets' net county cost or other expenditures.



Shown below are the sources of the countywide discretionary revenue of \$701,656,903 for the 2013-14 recommended budget:



Percentages may not add to 100% due to rounding.



**COUNTYWIDE DISCRETIONARY REVENUE  
WHICH PAY FOR NET COUNTY COST**

	2012-13 Adopted Budget	2012-13 Modified Budget	2012-13 Estimate	2013-14 Recommended Budget
<b>Countywide Discretionary Revenue</b>				
Property Related Revenue:				
Current Secured, Unsecured, Unitary	200,406,123	202,331,718	213,831,718	205,120,805
VLF/Property Tax Swap	198,672,252	202,181,646	202,181,646	205,214,371
Supplemental Property Tax	4,000,000	2,750,000	2,750,000	2,750,000
Property Transfer Tax	5,100,000	5,100,000	6,000,000	6,000,000
Penalty on Current Taxes	2,470,000	2,470,000	2,470,000	2,470,000
Prior Property Taxes, Penalties and Interest	3,500,000	3,250,000	2,250,000	2,250,000
Total Property Related Revenue	414,148,375	418,083,364	429,483,364	423,805,176
Sales and Other Taxes:				
Sales and Use Tax	17,292,188	18,638,951	19,999,088	19,587,302
Franchise Fees	5,810,000	5,810,000	5,810,000	5,810,000
Hotel/Motel Tax	1,200,000	1,200,000	1,200,000	1,200,000
Other Taxes	790,000	790,000	790,000	790,000
Total Sales and Other Taxes	25,092,188	26,438,951	27,799,088	27,387,302
Net Interest Earnings	20,408,500	20,408,500	20,408,500	19,225,000
COWCAP Revenue	53,996,755	53,996,755	53,296,755	53,977,428
Property Tax Admin Revenue	12,888,257	10,088,257	10,088,257	10,189,140
Recording Fee Revenue	3,100,000	3,100,000	3,500,000	3,500,000
State and Federal Aid	4,883,223	4,978,076	4,978,076	4,819,131
Other Revenue	430,000	4,204,275	20,604,275	430,000
<b>Total Countywide Discretionary Revenue</b>	<b>534,947,298</b>	<b>541,298,178</b>	<b>570,158,315</b>	<b>543,333,177</b>
<b>Other Funding Sources</b>				
Available Fund Balance, beginning	50,291,464	50,291,464	50,291,464	82,308,657
Fund Balance for Board Discretionary Fund Allocations	10,157,890	10,157,890	10,157,890	6,372,070
Use of Reserves	5,000,000	19,200,000	19,200,000	36,274,743
Operating Transfers In (One-Time)	26,536,474	26,851,474	25,675,773	10,568,256
Operating Transfers In (Ongoing)	24,542,361	24,542,361	23,642,361	22,800,000
<b>Total Other Funding Sources</b>	<b>116,528,189</b>	<b>131,043,189</b>	<b>128,967,488</b>	<b>158,323,726</b>
<b>Total Countywide Discretionary Revenue and Other Funding Sources</b>	<b>651,475,487</b>	<b>672,341,367</b>	<b>699,125,803</b>	<b>701,656,903</b>
<b>Locally Funded Appropriation</b>				
Total Countywide Discretionary Revenue	534,947,298	541,298,178	570,158,315	543,333,177
Operating Transfers In (Ongoing)	24,542,361	24,542,361	23,642,361	22,800,000
Locally Funded Appropriation	559,489,659	565,840,539	593,800,676	566,133,177

The 2013-14 discretionary general funding of \$701,656,903 includes Countywide Discretionary Revenue of \$543.3 million and Other Funding Sources of \$158.3 million. Per the County Fund Balance and Reserve Policy, the General Purpose Reserve will be built up with one-time sources until the target of 20% of locally funded appropriation is reached. The 2013-14 Recommended Budget includes a contribution of \$5,661,332 to the General Purpose Reserve (1% of locally funded appropriation), and brings the funding level to \$76,491,637, or 13.5% of locally funded appropriation. County policy also requires a minimum of 1.5% of locally funded appropriation be placed in general fund mandatory contingencies.



### **Countywide Discretionary Revenue**

Property Related Revenue account for over 60% of countywide discretionary revenue and other funding sources. These revenues have been severely impacted as a result of the mortgage and financial crisis, which has had a significant effect on the housing market within the County.

Assessed valuation has been negatively affected both by homes selling at prices lower than their current assessed valuation, and by Proposition 8 reassessments, which lower valuations of properties (where no change in ownership has occurred) if the current assessed value of such property is greater than the fair market value of the property. However the median price of a home in the County has started to rise, and the volume of home sales remains relatively stable. Rising home prices are also leading to value being added back to the assessment roll for valuations that had been reduced through Proposition 8 reassessments. As a result of these factors, the County is projecting an increase in assessed valuation for the first time since 2008-09. This increase is projected at 1.5%

### **Elimination of Redevelopment Agencies**

A portion of the general fund's property tax revenue is pass-through of property tax increment belonging to redevelopment agencies. Redevelopment agencies were dissolved as of February 1, 2012, pursuant to ABX126. Pursuant to ABX126, revenues that would have been directed to the dissolved redevelopment agencies will continue to be used to make pass-through payments to other public agencies (i.e., payments that such entities would have received under prior law). In addition, the State projects that the elimination of redevelopment agencies will provide additional property tax revenue for local public agencies, including the County. The County has not budgeted any additional property tax revenue that might result from the dissolution of Redevelopment Agencies pursuant to ABX126, but does continue to budget for pass-through payments consistent with ABX126.

### **The Teeter Plan**

The Teeter Plan is an alternate property tax distribution procedure authorized by the California Legislature in 1949 and implemented by the County in fiscal year 1993-94. Generally, the Teeter Plan provides for a property tax distribution procedure by which secured roll taxes are distributed based on the tax levy, rather than on the basis of actual tax collections, for agencies that elect to participate in the Teeter Plan (including the County general fund). Under the Teeter Plan, the County advances each participant an amount equal to the participant's Teeter Secured Levy (adjusted at year end for corrections to the assessment roll) that remains unpaid at the end of the fiscal year. In return, the County general fund receives all future delinquent tax payments, penalties and interest. The County bears the risk of loss on the delinquent property taxes but benefits from the penalties and interest associated with these delinquent taxes when they are paid. Under the Teeter Plan the County is also required to establish a tax loss reserve fund to cover losses that may occur as a result of sales of tax-defaulted properties.

The levy secured by the Teeter Plan (the Teeter Secured Levy), includes each participating agency's share of the 1% ad valorem secured levy plus any ad valorem levy for the debt service of voter-approved general obligation bonds. Not included in the Teeter Secured Levy are supplemental roll revenues, special assessments, utility roll revenues, or property tax pass-through amounts from redevelopment agencies within the County (see 'Elimination of Redevelopment Agencies' above).

As a participant in the Teeter Plan, the County general fund receives the entire share of its Teeter Secured Levy, regardless of delinquencies. The County general fund also receives all participating agencies share of the penalties and interest associated with the delinquent taxes advanced under the Teeter Plan once they are paid. These interest and penalties, accounted for as interest earnings in countywide discretionary revenue, are projected to decrease slightly in 2013-14.



The following paragraphs describe the components of property related revenue in detail:

### **Current Secured, Unsecured, Unitary**

Secured Property Tax Revenue makes up approximately \$180.8 million of the \$205.1 million in the 2013-14 “Current Secured, Unsecured, Unitary” budgeted revenue number, up from \$178.2 million in the 2012-13 Modified Budget. This reflects a projected increase in assessed valuation of 1.5%. This is the first projected increase in assessed valuation since the 2008-09 Adopted Budget. The County has not budgeted any additional property tax revenue that might result from the dissolution of Redevelopment Agencies pursuant to ABX126, but does continue to budget for pass-through payments consistent with ABX126 (see ‘Elimination of Redevelopment Agencies’ above).

### **VLF/Property Tax Swap**

Historically, approximately three-fourths of Vehicle License Fee (VLF) revenue was allocated to cities and counties as general purpose funding. Beginning in 1998-99, the State reduced the VLF payment required from vehicle owners. However, the State made up the revenue impact of the VLF rate reductions with State general fund revenue (the ‘VLF Backfill’).

The VLF Backfill was eliminated in the 2004-05 State budget. In that year, the VLF Backfill to cities and counties was permanently replaced with an equivalent increase in property tax revenues (VLF/Property Tax Swap revenues). This increase was funded by decreases in property tax revenues allocated to schools and community colleges.

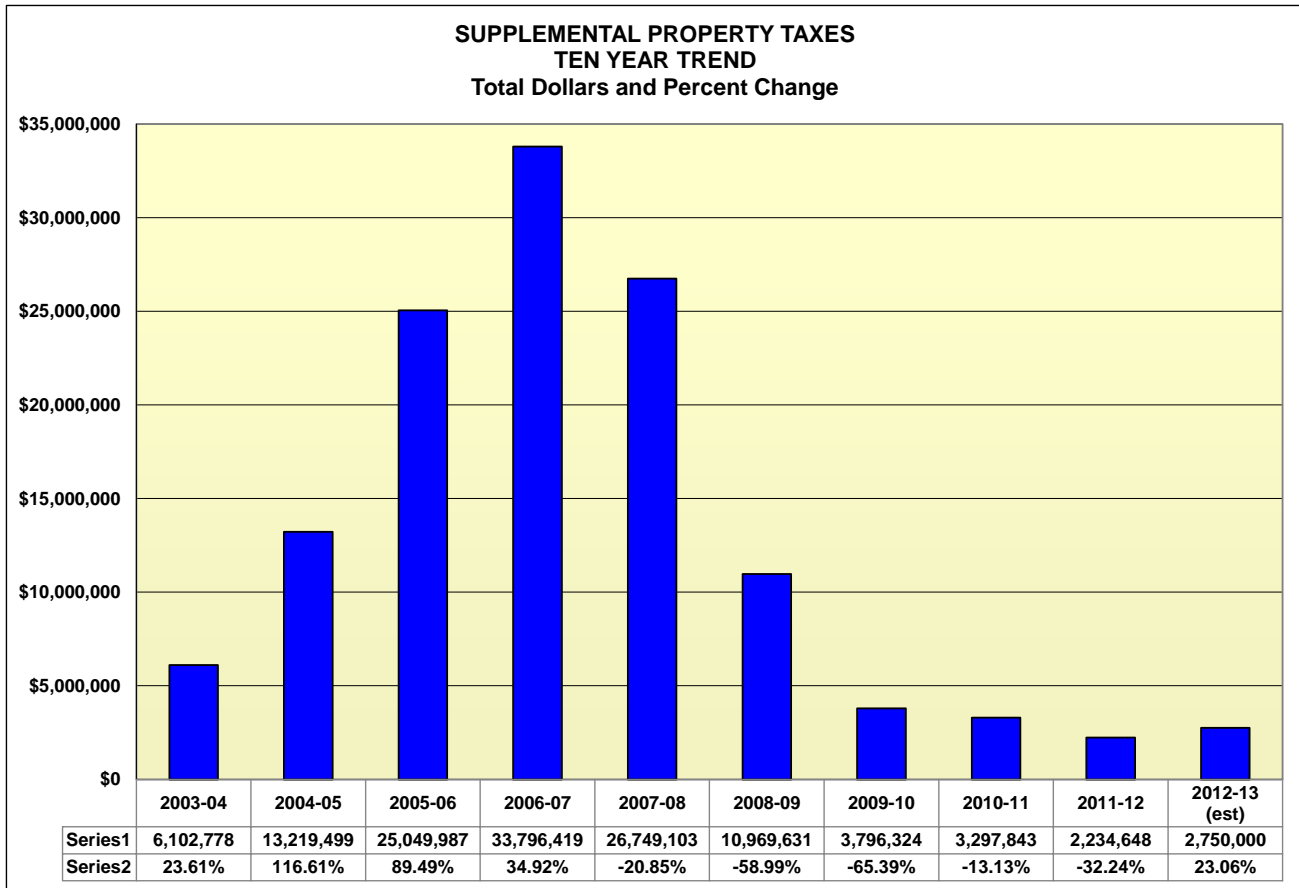
For 2004-05, the State established the base amount of the VLF/Property Tax Swap. The base is equal to the amount of VLF backfill that the counties and cities would have received in 2004-05, calculated using actual VLF receipt amounts for 2004-05. For years beginning in 2005-06, the VLF/Property Tax Swap amount is calculated using the prior year VLF/Property Tax Swap amount adjusted by the percent change in assessed valuation. This percent change includes both secured and unsecured assessed valuation, but excludes the change in unitary valuations. The 2013-14 budgeted amount reflects the projected increase in assessed valuation of 1.5%, as compared to the 2012-13 Modified Budget.

### **Supplemental Property Tax**

Supplemental Property Tax payments are required from property owners when there is a change in the assessed valuation of their property after the property tax bill for that year has been issued. Generally there are two types of events that will require a supplemental property tax payment: a change in ownership or the completion of new construction. As a result, when property values have been increasing and sales activity is high, there will be an increase in the number and dollar amount of supplemental property tax bills, which will result in increased supplemental property tax revenue to the County. Conversely, when home values are decreasing, refunds may be due to homeowners, and supplemental property tax revenues will decrease. Because the collection of these revenues may not occur for one to two years after the sale of the property, supplemental property tax revenue will generally lag the reality in the housing market by at least a year.





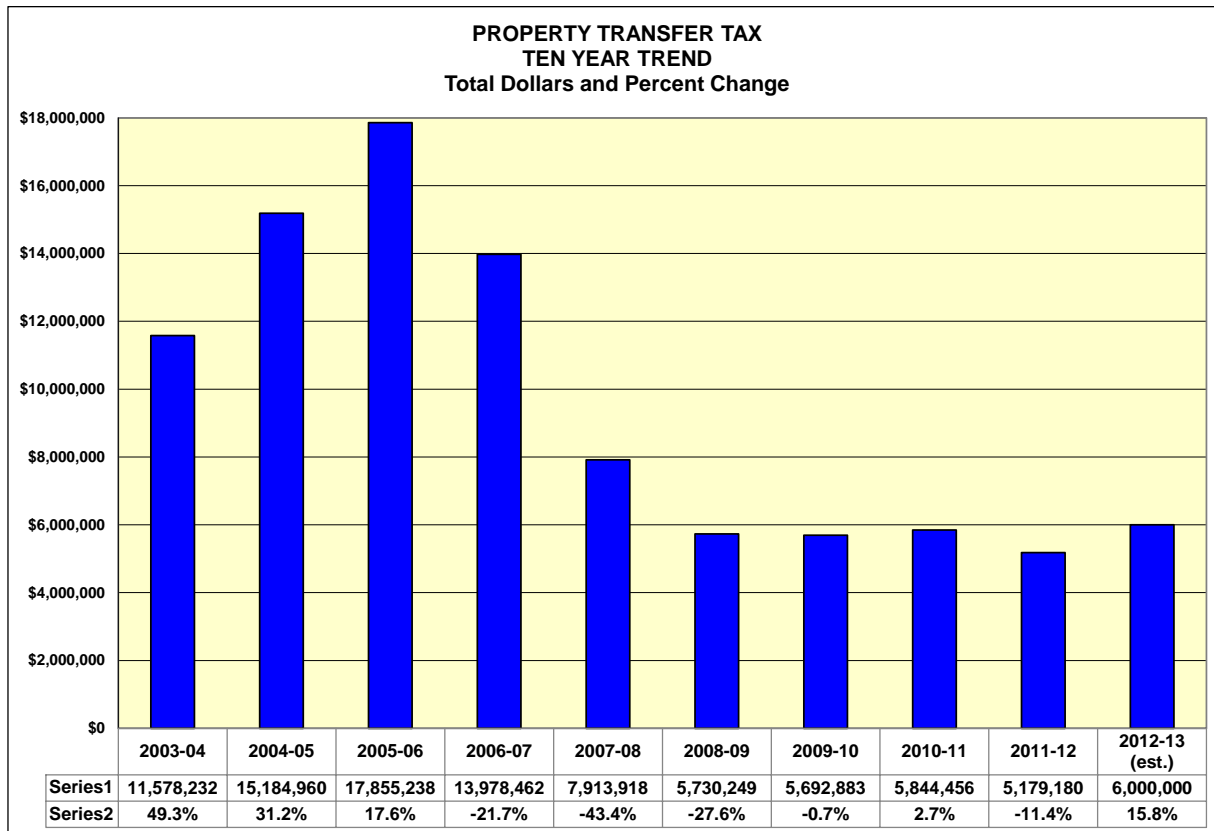


As discussed above, when homes sell at prices lower than the current assessed value reflected on the property tax bill, a refund may be due to the taxpayer. As a result, the County estimates only \$2.75 million in supplemental property tax revenues in 2013-14.



### Property Transfer Tax

The Property Transfer Tax is collected when any lands, tenements, or other realty sold within the County is granted, assigned, transferred, or otherwise conveyed to or vested in the purchaser. The tax is imposed when the value of the property exceeds \$100. The tax rate is \$0.55 for each \$500 of property value. For sales in the unincorporated areas of the County, the County receives 100% of the tax. For sales in cities, the County receives 50% of the tax. The County anticipates that property transfer tax will be \$6.0 million in 2013-14, consistent with the 2012-13 year end estimate. The following chart presents the most recent ten year trend of property transfer tax revenue.



### Sales and Use Tax

Countywide discretionary revenue includes 1% of the 8.0% sales tax rate charged on purchases made in the unincorporated areas of the County. This 1% is made up of two components. The first is 0.75% of taxable sales remitted by businesses that collect sales tax. The second component is the Sales Tax/Property Tax Swap, also referred to as the Triple Flip, which represents 0.25% of taxable sales. Both of these components are explained in more detail below.

#### Sales and Use Tax Allocation of 0.75%

When preparing the annual budget, the County projects future sales tax revenue based on data provided by a local economist and the County's sales tax consultant. For 2013-14, ongoing sales tax revenue is anticipated to increase slightly from 2012-13 estimated receipts. This estimate does not include one-time use tax receipts for mining and energy related projects, which is budgeted in Operating Transfers In, found later in this section. 2013-14 ongoing sales tax revenue in the unincorporated area is projected to total \$16.6 million (after adjusting for the Triple Flip). The County has budgeted \$13.5 million in 2013-14.

The sales tax revenue projection of \$13.5 million is net of the portion of the County ongoing sales tax revenue remitted to the City of Redlands under the sales tax sharing agreement explained below:

#### Sales Tax Sharing Agreement with the City of Redlands

In August of 2003, the County entered into a sales tax sharing agreement with the City of Redlands. Under the terms of this agreement, the City of Redlands provides government services to an



unincorporated area of the County, and in return the County pays the city a percentage of the sales tax revenue generated in that geographical area. This geographical area has numerous retail establishments and generates a considerable amount of sales tax revenue. Under the terms of the sales tax sharing agreement, the County currently pays the City of Redlands 90% of the County discretionary sales tax revenue generated in this area.

#### Potential Annexations and Incorporations

Based on recent estimates, approximately 32.2% of the County's discretionary sales tax revenue is generated in the unincorporated portion of the spheres of influence of the 24 cities that are within the County's boundaries. A sphere of influence is a 'planning boundary' within which a city or district is expected to grow over time. Therefore, the areas within these spheres are likely to be annexed, and once annexed, the discretionary sales tax revenue generated in that area will go to the city instead of the County. The County would also lose sales tax revenue if a community in the unincorporated area of the County decided to create a new city (incorporate).

#### Sales Tax/Property Tax Swap of 0.25%

Effective with the fiscal year that began on July 1, 2004, the state changed the way sales tax revenue is distributed to counties and cities. Previously, counties and cities received 1% of the state's base sales tax rate, which is currently 7.50%. Pursuant to new provisions enacted by the legislature, this 1% share of sales tax was reduced by 0.25%, to 0.75%. The additional 0.25% in sales tax revenue was redirected to the state to be used to fund debt service on the California Economic Recovery Bonds, which were approved by voters as Proposition 57. In return, counties and cities receive additional property tax revenue (funded by reducing the schools' share of property tax revenue) in an amount equal to the 0.25% sales tax revenues forgone. The State general fund then makes up the loss of property tax revenue to the schools. This change is referred to as the 'Triple Flip'. This Triple Flip will continue until the California Economic Recovery Bonds are paid.

The Triple Flip was designed to replace sales tax revenue on a dollar for dollar basis with property tax revenue. In practice, the additional property tax revenue paid to the counties and cities each year is based on an estimate of the agencies' sales tax revenue for the year plus a 'true-up' from the prior year. This true-up represents the difference between the additional property tax revenue paid to the local agency and the actual amount of sales tax revenue (the 0.25%) lost by the local agency.

For 2013-14 the County anticipates \$6.1 million in Triple Flip revenue which includes an estimated \$0.6 million in true-up from the prior year.

#### **Net Interest Earnings**

Net interest earnings for 2013-14 are projected at \$19.2 million. This is \$1.2 million lower than 2012-13 adopted budget revenue. The decrease is due to lower available investment rates and lower interest and penalties from delinquent property taxes from the County's Teeter Plan. For more information see the section titled 'The Teeter Plan' on page 23 of this section.

#### **COWCAP (Countywide Cost Allocation Plan) Revenue**

The budgeted COWCAP Revenue amount reflects the recovered allowable costs included in the 2013-14 Countywide Cost Allocation Plan (COWCAP) published by the Auditor-Controller/Treasurer/Tax Collector. COWCAP revenue is reimbursement for overhead/indirect costs incurred by the general fund. Reimbursements are received from various state and federal grant programs (that permit such reimbursement) and fee supported general fund departments and taxing entities such as the County Library and Board-governed special districts. The County anticipates an increase in COWCAP revenue in an amount of \$2.3 million from these departments in 2013-14.

In 2011-12 the County began charging COWCAP to general fund departments that receive Net County Cost to fund their programs. This was a change in practice, since Net County Cost then needed to be allocated to these departments to pay for these COWCAP charges. However, to ensure that the full cost of services was included in fees that they charge for services, locally funded general fund departments began paying COWCAP, using an increased Net County Cost allocation. For 2013-14 COWCAP charges for these departments fell by \$2.3 million, which is offset by a decrease in their Net County Cost allocation in the same amount.



### **Property Tax Administration Revenue**

Property tax administration revenue consists of:

- SB 813 cost reimbursement, which represents allowable charges for administration and operation of the supplemental property tax program. This reimbursement is tied directly to the performance of supplemental property tax revenue.
- The property tax administrative fee, which is allowed by the legislature, recovers a portion of the County's cost of the property assessment and tax collection process from certain other local jurisdictions. This revenue is tied directly to the cost of that collection effort. School Districts are not required to pay their share of this fee, so not all County costs are recovered.

Litigation regarding the Property Tax Administration Fee (PTAF). Forty-three cities sued Los Angeles County over the portion of PTAF fees calculated on the State revenue exchanges known as the Triple Flip and Vehicle License Fee (VLF) Swap. All California counties have included the Triple Flip and VLF/Property Tax Swap in the base for the calculation of the cities' share of this fee. The Court recently ruled in favor of the cities. On an annual basis, this ruling results in the loss of \$2.8 million of annual PTAF fees. This loss is first recognized in 2012-13.

### **Recording Fee Revenue**

The Recorder's Division of the County's Assessor/Recorder/County Clerk's Office collects certain fees for the official recording of documents. Recording Fees are expected to remain flat as compared to the 2012-13 estimate.

### **State and Federal Aid**

State and federal aid consists of a payment from the welfare realignment trust fund, which replaced the state revenue stabilization program, SB90 reimbursements from the state, and excess Vehicle License Fee (VLF) revenue. It also includes revenues received from the federal government's Payment in Lieu of Taxes (PILT) program. The Emergency Economic Stabilization Act of 2008 (Public Law 110-343) was enacted on October 3, 2008 and authorized full funding for the PILT program from 2008 through 2012, which generates approximately \$1.0 million in additional PILT revenue annually. Although scheduled to end in 2012, the full funding level for PILT has been extended for one additional year.

### **Other Revenue**

Other revenue includes voided warrants issued by the County, projected transfers of unclaimed property tax refunds to the general fund, the county share of vehicle code violation revenue, and other miscellaneous revenues.

### **Other Funding Sources**

#### **Fund Balance and Reimbursements**

The 2012-13 estimated year-end fund balance for the general fund is \$82.3 million.

#### **Use of Reserves**

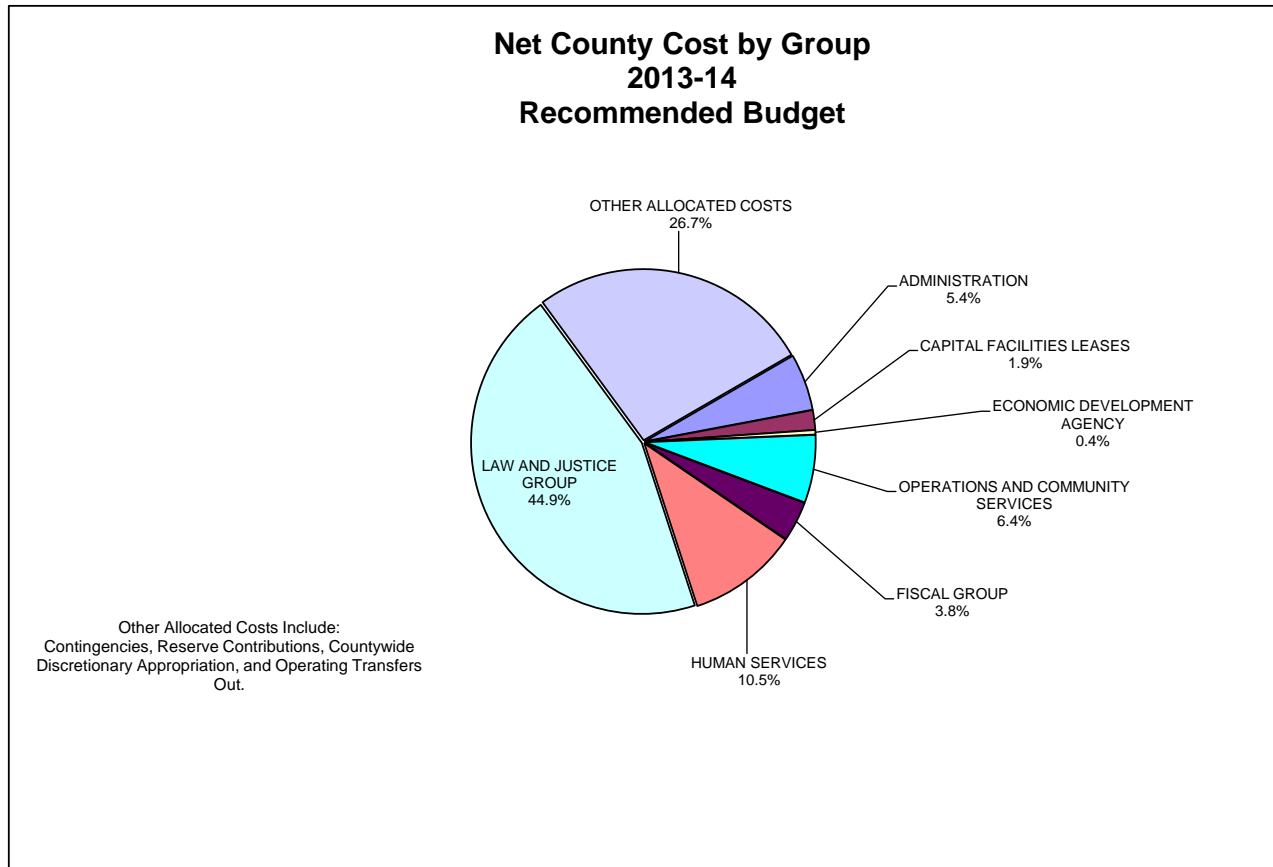
The 2013-14 Recommended Budget anticipates the use of the full amount of the Future Space Needs Reserve of \$22.9 million, and \$13.4 million of the Teeter Reserve, which is the amount that this reserve is funded in excess of the legal requirement. The funds released from these reserves, along with other one-time monies of the County, will be used to fund one-time capital projects and other one-time expenditures or to increase contingencies to be assigned for one-time capital projects and other one-time expenditures.

#### **Operating Transfers In**

Operating transfers in primarily include \$17.0 million of ongoing tobacco settlement funds to provide \$15.0 million of ongoing funding for debt service on the Arrowhead Regional Medical Center and \$2.0 million of ongoing funding for Public Health; \$4.1 million of ongoing Courthouse and Criminal Justice Construction funds to fund debt service on the Foothill Law and Justice Center, and a \$6.0 million loan repayment. Operating Transfers In also includes \$3.1 million of estimated one-time sales tax revenue discussed in the section titled Sales and Use Tax.



Countywide discretionary revenue is allocated as net county cost to various general fund departments within the County. The pie chart below shows what percentage of the net county cost is allocated to each of the groups.



Percentages may not add to 100% due to rounding.

The schedule on the following page shows a comparison of 2012-13 modified net county cost and 2013-14 recommended net county cost by department. This schedule also includes requirements and sources, including operating transfers, which are mechanisms to move funding between the various county budget units. Operating transfers are presented in the following chart because the intended purpose is to provide a complete picture of the department's requirements and sources. Operating transfers are excluded from the countywide appropriation and revenue summaries presented in the County Budget Summary section of the 2013-14 Recommended Budget Executive Summary book, as their inclusion would over state countywide appropriation and revenue on a consolidated basis.

Department Title	2012-13 Modified Budget:			2013-14 Recommended Budget:			Change Between 2012-13 Modified & 2013-14 Recommended:		
	Requirements	Sources	Net County Cost	Requirements	Sources	Net County Cost	Requirements	Sources	Net County Cost
BOARD OF SUPERVISORS (ALL DISTRICTS)	7,647,052	-	7,647,052	7,046,590	-	7,046,590	(600,462)	-	(600,462)
CLERK OF THE BOARD	1,851,963	371,138	1,480,825	2,343,696	313,578	2,030,118	491,696	(57,560)	549,256
COUNTY ADMINISTRATIVE OFFICE	4,061,078	-	4,061,078	4,443,803	-	4,443,803	382,725	-	382,725
COUNTY ADMINISTRATIVE OFFICE - LITIGATION	489,938	-	489,938	589,763	-	589,763	99,825	-	99,825
COUNTY COUNSEL	8,751,502	5,644,400	3,107,102	8,713,238	5,683,270	3,029,968	(38,264)	38,870	(77,134)
FINANCE AND ADMINISTRATION	2,640,486	-	2,640,486	2,814,749	-	2,814,749	174,263	-	174,263
HUMAN RESOURCES	5,860,758	538,084	5,322,674	7,165,607	624,917	6,540,690	1,304,849	86,833	1,218,016
HUMAN RESOURCES - UNEMPLOYMENT INSURANCE	4,000,500	-	4,000,500	4,000,500	-	4,000,500	-	-	-
HUMAN RESOURCES - EMPLOYEE HEALTH AND WELLNESS	1,979,584	1,979,584	-	2,069,041	2,069,041	-	89,457	89,457	-
INFORMATION SERVICES - APPLICATION DEVELOPMENT	15,406,101	7,938,173	7,467,928	15,765,937	13,720,515	2,045,422	359,836	5,782,342	(5,422,506)
PURCHASING	2,034,799	848,168	1,186,631	2,067,102	557,076	1,510,026	32,303	(291,092)	323,395
LOCAL AGENCY FORMATION COMMISSION	301,000	-	301,000	288,274	-	288,274	(12,726)	-	(12,726)
COUNTY SCHOOLS	3,085,995	-	3,085,995	3,159,104	-	3,159,104	73,109	-	73,109
<b>ADMINISTRATION SUBTOTAL:</b>	<b>58,110,756</b>	<b>17,319,547</b>	<b>40,791,209</b>	<b>60,467,367</b>	<b>22,968,397</b>	<b>37,498,970</b>	<b>2,356,611</b>	<b>5,648,850</b>	<b>(3,292,239)</b>
CAPITAL FACILITIES LEASES	13,052,882	-	13,052,882	13,013,014	-	13,013,014	(39,868)	-	(39,868)
<b>CAPITAL FACILITIES LEASES SUBTOTAL:</b>	<b>13,052,882</b>	<b>-</b>	<b>13,052,882</b>	<b>13,013,014</b>	<b>-</b>	<b>13,013,014</b>	<b>(39,868)</b>	<b>-</b>	<b>(39,868)</b>
ECONOMIC DEVELOPMENT	3,045,214	130,000	2,915,214	3,129,834	155,000	2,974,834	84,620	25,000	59,620
<b>ECONOMIC DEVELOPMENT AGENCY SUBTOTAL:</b>	<b>3,045,214</b>	<b>130,000</b>	<b>2,915,214</b>	<b>3,129,834</b>	<b>155,000</b>	<b>2,974,834</b>	<b>84,620</b>	<b>25,000</b>	<b>59,620</b>
ASSESSOR/RECORDER/COUNTY CLERK	21,923,606	6,716,500	15,207,106	22,789,523	7,106,500	15,683,023	865,917	390,000	475,917
AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR	36,681,443	27,026,066	9,655,377	36,978,479	26,083,135	10,895,344	297,036	(942,931)	1,239,967
<b>FISCAL SUBTOTAL:</b>	<b>58,605,049</b>	<b>33,742,566</b>	<b>24,862,483</b>	<b>59,768,002</b>	<b>33,189,635</b>	<b>26,578,367</b>	<b>1,162,953</b>	<b>(552,931)</b>	<b>1,715,884</b>
HEALTH ADMINISTRATION	77,560,645	62,560,645	15,000,000	110,534,459	95,534,459	15,000,000	32,973,814	32,973,814	-
BEHAVIORAL HEALTH	132,119,003	130,126,792	1,992,211	152,535,445	150,543,234	1,992,211	20,416,442	20,416,442	-
PUBLIC HEALTH	73,735,476	69,906,009	3,829,467	78,546,440	74,445,996	4,100,444	4,810,964	4,539,987	270,977
PUBLIC HEALTH - CALIFORNIA CHILDREN'S SERVICES	19,568,371	14,991,401	4,576,970	21,008,999	16,335,156	4,673,843	1,440,628	1,343,755	96,873
PUBLIC HEALTH - INDIGENT AMBULANCE	472,501	-	472,501	472,501	-	472,501	-	-	-
AGING AND ADULT SERVICES	10,269,763	10,269,763	-	8,914,746	8,914,746	-	(1,355,017)	(1,355,017)	-
AGING AND ADULT SERVICES - PUBLIC GUARDIAN-CONSERVATOR	946,769	325,663	621,106	903,483	286,850	616,633	(43,286)	(38,813)	(4,473)
CHILD SUPPORT SERVICES	39,685,993	39,685,993	-	40,134,968	40,134,968	-	448,975	448,975	-
HUMAN SERVICES - ADMINISTRATIVE CLAIM	443,441,035	428,864,171	14,576,864	473,868,684	458,161,333	15,707,351	30,427,649	29,297,162	1,130,487
DOMESTIC VIOLENCE/CHILD ABUSE SERVICES	531,812	531,812	-	531,812	531,812	-	-	-	-
ENTITLEMENT PAYMENTS (CHILDCARE)	28,468,013	28,468,013	-	31,244,447	31,244,447	-	2,776,434	2,776,434	-
OUT-OF-HOME CHILD CARE	810,566	-	810,566	810,566	-	810,566	-	-	-
AID TO ADOPTIVE CHILDREN	52,913,715	50,964,195	1,949,520	56,334,041	54,384,521	1,949,520	3,420,326	3,420,326	-
AFDC - FOSTER CARE	111,663,120	97,714,103	13,949,017	123,710,568	106,395,312	17,315,256	12,047,448	8,681,209	3,366,239
REFUGEE CASH ASSISTANCE	77,075	77,075	-	75,918	75,918	-	(1,157)	(1,157)	-
CASH ASSISTANCE FOR IMMIGRANTS	1,689,063	1,689,063	-	1,924,374	1,924,374	-	235,311	235,311	-
CALWORKS - ALL OTHER FAMILIES	249,805,920	243,560,772	6,245,148	248,426,880	242,216,208	6,210,672	(1,379,040)	(1,344,564)	(34,476)
KINSHIP GUARDIANSHIP ASSISTANCE PROGRAM	6,352,298	5,018,309	1,333,989	7,485,732	6,568,722	917,010	1,133,434	1,550,413	(416,979)
SERIOUSLY EMOTIONALLY DISTURBED	-	-	-	-	-	-	-	-	-
CALWORKS - 2 PARENT FAMILIES	40,896,298	39,873,890	1,022,408	39,526,722	38,538,554	988,168	(1,366,576)	(1,335,336)	(34,240)
AID TO INDIGENTS (GENERAL RELIEF)	1,782,116	495,375	1,286,741	1,711,197	505,000	1,206,197	(70,919)	9,625	(80,544)
VETERANS AFFAIRS	1,858,390	458,777	1,399,613	1,896,491	458,777	1,437,714	38,101	-	38,101
<b>HUMAN SERVICES SUBTOTAL:</b>	<b>1,294,647,942</b>	<b>1,225,581,821</b>	<b>69,066,121</b>	<b>1,400,598,473</b>	<b>1,327,200,387</b>	<b>73,398,086</b>	<b>105,950,531</b>	<b>101,618,566</b>	<b>4,331,965</b>
COUNTY TRIAL COURTS - DRUG COURT PROGRAMS	390,103	390,103	-	381,101	381,101	-	(9,002)	(9,002)	-
COUNTY TRIAL COURTS - GRAND JURY	420,520	-	420,520	416,022	-	416,022	(4,498)	-	(4,498)
COUNTY TRIAL COURTS - INDIGENT DEFENSE PROGRAM	9,802,555	90,000	9,712,555	9,805,546	90,000	9,715,546	2,991	-	2,991
COUNTY TRIAL COURTS - COURT FACILITIES/JUDICIAL BENEFITS	1,230,902	-	1,230,902	1,216,657	-	1,216,657	(14,245)	-	(14,245)
COUNTY TRIAL COURTS - COURT FACILITIES PAYMENTS	2,505,233	-	2,505,233	2,536,349	-	2,536,349	31,116	-	31,116
COUNTY TRIAL COURTS - FUNDING OF MAINTENANCE OF EFFORT	26,397,865	16,269,848	10,128,017	25,510,051	14,182,000	11,328,051	(887,814)	(2,087,848)	1,200,034
DISTRICT ATTORNEY - CRIMINAL PROSECUTION	63,138,677	30,392,433	32,746,244	64,450,766	33,748,776	30,701,990	1,312,089	3,356,343	(2,044,254)
LAW & JUSTICE GROUP ADMINISTRATION	144,767	144,767	-	5,000	5,000	-	(139,767)	(139,767)	-
PROBATION - ADMINISTRATION, CORRECTIONS AND DETENTION	135,245,612	70,893,960	64,351,652	137,368,823	73,665,220	63,703,603	2,123,211	2,771,260	(648,049)
PROBATION - COURT-ORDERED PLACEMENTS	1,529,775	-	1,529,775	-	-	-	(1,529,775)	-	(1,529,775)
PROBATION - JUVENILE JUSTICE GRANT PROGRAM	-	-	-	-	-	-	-	-	-
PUBLIC DEFENDER	34,283,613	3,616,194	30,667,419	35,108,960	4,645,553	30,463,407	825,347	1,029,359	(204,012)
SHERIFF/CORONER/PUBLIC ADMINISTRATOR	203,482,600	138,423,973	65,058,627	205,441,639	149,015,641	56,425,998	1,959,039	10,591,668	(8,632,629)
SHERIFF - DETENTIONS	149,699,675	48,720,153	100,979,522	160,480,292	51,603,484	108,876,808	10,780,617	2,883,331	7,897,286
SHERIFF - CONTRACTS	120,240,007	119,201,662	1,038,345	122,762,475	122,762,475	-	2,522,468	3,560,813	(1,038,345)
<b>LAW AND JUSTICE SUBTOTAL:</b>	<b>748,511,904</b>	<b>428,143,093</b>	<b>320,368,811</b>	<b>765,483,681</b>	<b>450,099,250</b>	<b>315,384,431</b>	<b>16,971,777</b>	<b>21,956,157</b>	<b>(4,984,380)</b>
AGRICULTURE/WEIGHTS AND MEASURES	6,747,811	5,451,365	1,296,446	6,797,080	5,437,850	1,359,230	49,269	(13,515)	62,784
AIRPORTS	2,879,545	2,879,545	-	2,910,893	2,910,893	-	31,348	31,348	-
ARCHITECTURE AND ENGINEERING	-	-	-	-	-	-	-	-	-
COUNTY MUSEUM	3,616,782	1,740,766	1,876,016	3,091,973	975,006	2,116,967	(524,809)	(765,760)	240,951
LAND USE SERVICES - ADMINISTRATION	700,000	-	700,000	1,167,142	-	1,167,142	467,142	-	467,142
LAND USE SERVICES - PLANNING	8,478,440	2,500,618	5,977,822	8,331,849	3,229,617	5,102,232	(146,591)	728,999	(875,590)
LAND USE SERVICES - LAND DEVELOPMENT	-	-	-	825,000	225,000	600,000	825,000	225,000	600,000
LAND USE SERVICES - BUILDING AND SAFETY	3,969,191	3,405,184	564,007	3,934,957	3,357,750	577,207	(34,234)	(47,434)	13,200
LAND USE SERVICES - CODE ENFORCEMENT	4,631,390	408,955	4,222,435	5,485,718	643,756	4,841,962	854,328	234,801	619,527
LAND USE SERVICES - FIRE HAZARD ABATEMENT	1,894,570	1,626,270	268,300	2,505,670	2,251,250	254,420	611,100	624,980	(13,880)
PUBLIC WORKS-SURVEYOR	3,585,492	3,305,589	279,903	3,536,654	2,972,208	564,446	(48,838)	(333,381)	284,543
REAL ESTATE SERVICES (RES)	1,225,745	1,225,745	-	1,166,965	1,166,965	-	(58,780)	(58,780)	-
RES - FACILITIES MANAGEMENT	13,268,224	13,268,224	-	13,258,458	12,905,399	353,059	(9,766)	(362,825)	353,059
RES - UTILITIES	19,618,237	385,292	19,232,945	19,625,024	277,495	19,347,529	6,787	(107,797)	114,584
RES - RENTS AND LEASES	1,482,408	1,482,408	-	2,511,056	2,511,056	-	1,028,648	1,028,648	-
RES - COURTS PROPERTY MANAGEMENT	2,221,510	2,221,510	-	2,285,336	2,285,336	-	63,826	63,826	-
REGIONAL PARKS	10,610,675	7,847,404	2,763,271	10,420,719	7,863,567	2,557,152	(189,956)	16,163	(206,119)
REGISTRAR OF VOTERS	10,451,671	2,914,734	7,536,937	8,620,303	2,498,240	6,122,063	(1,831,368)	(416,494)	(1,414,874)
<b>OPERATIONS AND COMMUNITY SERVICES SUBTOTAL:</b>	<b>95,381,691</b>	<b>50,663,609</b>	<b>44,718,082</b>	<b>96,474,797</b>	<b>51,511,388</b>	<b>44,963,409</b>	<b>1,093,106</b>	<b>847,779</b>	<b>245,327</b>
<b>GENERAL FUND DEPARTMENT SUBTOTAL:</b>	<b>2,271,355,438</b>	<b>1,755,580,636</b>	<b>515,774,802</b>	<b>2,398,935,168</b>	<b>1,885,124,057</b>	<b>513,811,111</b>	<b>127,579,730</b>	<b>129,543,421</b>	<b>(1,963,691)</b>
CONTINGENCIES	38,739,491	-	38,739,491	84,117,215	-	84,117,215	45,377,724	-	45,377,724
RESERVE CONTRIBUTIONS	6,594,897	-	6,594,897	12,668,192	-	12,668,192	6,073,295	-	6,073,295
BOARD DISCRETIONARY FUND	10,216,366	58,476	10,157,890	6,372,070	-	6,372,070	(3,844,296)	(58,476)	(3,785,820)
NON-DEPARTMENTAL APPROPRIATION	21,700,000	21,700,000	-	7,500,000	7,500,000	-	(14,200,000)	(14,200,000)	-
OPERATING TRANSFERS OUT	86,874,287	-	86,874,287	84,688,315	-	84,688,315	(2,185,972)	-	(2,185,972)
<b>TOTAL COUNTYWIDE ALLOCATED COSTS:</b>	<b>164,125,041</b>	<b>21,758,476</b>	<b>142,366,565</b>	<b>195,345,792</b>	<b>7,500,000</b>	<b>187,845,792</b>	<b>31,220,751</b>	<b>(14,258,476)</b>	<b>45,479,227</b>
<b>GRAND TOTAL:</b>	<b>2,435,480,479</b>	<b>1,777,339,112</b>	<b>658,141,367</b>	<b>2,594,280,960</b>	<b>1,892,624,057</b>	<b>701,656,903</b>	<b>158,800,481</b>	<b>115,284,945</b>	<b>43,515,536</b>



**NON-DEPARTMENTAL BUDGET UNIT**

The non-departmental budget unit includes discretionary revenue of the general fund that is detailed in the table titled 'Countywide Discretionary Revenue Which Pay for Net County Cost' found earlier in this section of the budget book.

**APPROPRIATION**

	<b>2012-13 Adopted Budget</b>	<b>2012-13 Modified Budget</b>	<b>2012-13 Estimate</b>	<b>2013-14 Recommended Budget</b>
<b><u>Appropriation</u></b>				
Services & Supplies	1,000,000	1,000,000	600,000	1,000,000
Other Charges	6,500,000	20,700,000	15,300,000	6,500,000
<b>Total Expenditure Authority</b>	<b>7,500,000</b>	<b>21,700,000</b>	<b>15,900,000</b>	<b>7,500,000</b>

Non departmental appropriation pays for countywide expenditures not allocable to a specific department, and interest expense on the County's annual Tax and Revenue Anticipation Notes. The net interest earnings revenue reported in the table titled 'Countywide Discretionary Revenue Which Pay for Net County Cost' is reduced by these expenditures.

In 2012-13, a mid-year increase of \$14.2 million was appropriated to pay the one-time cost of the Property Tax Administration Fee (PTAF) litigation. This litigation was initiated by forty-three cities who sued Los Angeles County over the portion of PTAF fees calculated on the state revenue exchanges known as the Triple Flip and Vehicle License Fee (VLF) Swap. All California counties have included the Triple Flip and VLF/Property Tax Swap in the base for the calculation of the cities' share of this fee. The Court recently ruled in favor of the cities.

In addition to expenditures, this budget unit also includes operating transfers out which are transfers of cash to fund programs accounted for outside of the general fund.





**OPERATING TRANSFERS OUT**

	<b>2012-13 Adopted Budget</b>	<b>2012-13 Modified Budget</b>	<b>2012-13 Estimate</b>	<b>2013-14 Recommended Budget</b>
<b><u>Operating Transfers Out</u></b>				
<b>One-Time</b>				
Capital Improvement Fund - Relocate Sheriff's Aviation Division				4,500,000
Capital Improvement Fund - New Sheriff's Crime Lab				15,700,000
Capital Improvement Fund - Purchase of Buildings in Victorville				4,500,000
Capital Improvement Fund - Sheriff's Resident Post Improvements				150,000
Transfer to ICEMA - Loss of Court Fine Revenue				110,000
Transfer to Public Works - Glen Helen Road Improvements and PCI				4,533,629
Capital Improvement Fund - County Buildings Acquisition & Retrofit Project	10,000,000	10,000,000	10,000,000	
Capital Improvement Fund - Needles Fire Station	700,000	700,000	700,000	
Capital Improvement Fund - Fontana Western Sphere MOU	2,600,000	617,359	617,359	
Capital Improvement Fund - Design Sheriff Crime Lab Addition	1,300,000	1,300,000	1,300,000	
Flood Control - Rim Forest Drainage	5,900,000	5,900,000	-	
Transportation - Maintain County Roads (PCI) and Traffic Signal	5,250,000	5,250,000	5,250,000	
Public Works - System Changes	2,000,000	2,000,000	2,000,000	
Special District - Lake Gregory Dam	4,000,000	4,000,000	4,000,000	
Contributions to Oversight Board	300,000	300,000	300,000	
Community Development/Foundation	240,400	240,400	240,400	300,000
Glen Helen Rehabilitation Center Security Improvements	-	3,000,000	3,000,000	
Homeownership Protection and Foreclosure Prevention		350,000	350,000	524,276
Spring Valley Lake Fire Station		679,938	679,938	
<b>Ongoing</b>				
Capital Improvement Fund - Annual Allocation	12,000,000	12,000,000	12,000,000	12,000,000
Aging and Adult Services	1,057,620	1,057,620	1,057,620	1,057,620
800 MHz Project	20,000,000	20,000,000	20,000,000	20,000,000
Public Works - Fund 2 positions in land development	283,000	283,000	283,000	
Special Districts - Water/Wastewater System for Regional Parks				1,000,000
General Fund Subsidy to County Fire Protection District				
Office of Emergency Services	480,974	480,974	480,974	1,257,695
North Desert Zone	6,290,199	6,290,199	6,290,199	6,125,129
South Desert Zone	3,695,411	3,695,411	3,695,411	3,746,648
Valley Zone	2,760,231	2,760,231	2,760,231	3,348,952
Mountain Zone	770,238	770,238	770,238	621,518
Equipment Purchases	3,500,000	3,500,000	3,500,000	3,500,000
Emergency Fuel	45,917	45,917	45,917	162,848
County Redevelopment Agency to fund Sales Tax Sharing Agreement	353,000	353,000	353,000	250,000
Flood Control District Stormwater Permit	1,300,000	1,300,000	1,300,000	1,300,000
<b>Total Operating Transfers Out</b>	<b>84,826,990</b>	<b>86,874,287</b>	<b>80,974,287</b>	<b>84,688,315</b>





**CONTINGENCIES**

The County Contingencies includes the following elements:

**Contingencies****Mandatory Contingencies**

Board Policy requires the County to maintain an appropriated contingency fund to accommodate unanticipated operational changes, legislative impacts or other economic events affecting the County's operations, which could not have reasonably been anticipated at the time the budget was prepared. Funding is targeted at 1.5% of locally funded appropriation.

**Uncertainties Contingencies**

Any unallocated funding available from current year sources (both ongoing and one-time) that has not been set-aside and any unallocated fund balance carried over from the prior year, is budgeted in the contingencies for uncertainties. Adopted budget action includes a provision that allocates any difference between estimated and final fund balance to this contingencies account.

**Ongoing Set-Aside Contingencies**

The County budget process differentiates between ongoing and one-time revenue sources. Ongoing set-asides represent ongoing sources of funding that have been targeted for future ongoing program needs. There are no ongoing set-aside contingencies in 2012-13 or 2013-14.

	<b>2012-13 Adopted Budget</b>	<b>2012-13 Approved Contributions/ (Uses)</b>	<b>2013-14 Recommended Contributions / (Uses)</b>	<b>2013-14 Recommended Budget</b>
<b>Contingencies</b>				
Mandatory Contingencies (1.5% of Locally Funded Appropriation)	8,392,345		99,653	8,491,998
Uncertainties Contingencies	26,143,738	2,387,860	47,093,619	75,625,217
<b>Total Contingencies</b>	<b>34,536,083</b>	<b>2,387,860</b>	<b>47,193,272</b>	<b>84,117,215</b>

**2012-13 Changes to Uncertainties Contingencies**

In 2012-13 quarterly budget reports and other mid-year budget adjustments through the third quarter resulted in positive adjustments to the Uncertainties Contingencies of \$2,387,860 as follows:

- \$350,000 decrease to fund two positions in the Economic Development Agency to support the Homeownership Protection and Foreclosure Prevention Program.
- \$1,001,732 decrease due to \$894,474 in revenue increases offset by \$1,896,206 in expenditure increases. This reflects budget adjustments for the first quarter of 2012-13.
- \$14,400 decrease to fund an increase in a contract for work needed to complete a Development Impact Fee Analysis.
- \$1,403,100 decrease to fund the costs of special elections.
- \$6,958,240 increase due to \$9,973,409 in revenue increases and \$14,200,000 in reserve uses offset by \$17,215,169 in expenditure increases. This reflects the budget adjustments for the second quarter of 2012-13.
- \$1,801,148 decrease due to \$21,450,894 in revenue increases offset by \$12,252,042 in expenditure increases and a reserve contribution of \$11,000,000. This reflects the budget adjustments for the third quarter of 2012-13.



2013-14 Mandatory Contingencies

The base allocation to the mandatory contingencies is \$8,491,998, the amount required pursuant to Board policy, based on projected locally funded appropriation of \$566.1 million.

2013-14 Uncertainties Contingencies

The amount in the uncertainties contingencies represents the estimate of 2013-14 funding sources not appropriated for expenditure in the general fund. A portion of this contingency account has been assigned for certain projects/costs, as shown below:

<b>Total Contingency for Uncertainties Appropriation</b>	<b>75,625,217</b>
<b>Assigned for Specific Projects/Costs:</b>	
Earned Leave Program	4,442,369
New Financial Accounting System	13,000,000
Capital Projects:	
Jail Upgrades	18,000,000
Animal Shelter	10,000,000
County Buildings Acquisition and Retrofit Project	4,000,000
Rim Forest Drainage	5,900,000
Land Use Services General Plan/Development Code Amendments	5,400,000
County Code/Charter Update for County Counsel	150,000
Set Aside per various Board Actions	1,331,425
<b>Total Assigned Contingencies</b>	<b>62,223,794</b>
<b>Total Contingency for Uncertainties Not Assigned</b>	<b>13,401,423</b>



**RESERVES**

The County has a number of reserves that have been established over the years. Some are for specific purposes, such as to meet future known obligations or to build a reserve for capital projects. The general purpose reserve are funds held to protect the County from unforeseen increases in expenditures or reductions in revenues, or other extraordinary events, which would harm the fiscal health of the County. On January 6, 1998, the Board of Supervisors adopted a County policy to provide guidelines and goals for reserve levels. The current policy calls for the County General Purpose Reserve target to be 20% of locally funded appropriation. The Board of Supervisors also established specific purpose reserves to temporarily help meet future needs.

	6/30/12 Ending Balance	Approved 2012-13		6/30/13 Estimated Balance	Recommended 2013-14		6/30/14 Estimated Balance
		Contributions	Uses		Contributions	Uses	
<b>General Purpose Reserve</b>	<b>65,235,408</b>	5,594,897		<b>70,830,305</b>	<b>5,661,332</b>		<b>76,491,637</b>
<b>Specific Purpose Reserves</b>							
Future Space Needs	22,878,705			22,878,705		(22,878,705)	-
New Property Tax System	9,000,000	11,000,000		20,000,000			20,000,000
Retirement	8,500,000			8,500,000			8,500,000
Medical Center Debt Service	32,074,905			32,074,905			32,074,905
Teeter	24,709,925			24,709,925		(13,396,038)	11,313,887
Insurance	3,000,000			3,000,000			3,000,000
High Desert Fire Station	4,000,000	1,000,000	(5,000,000)	-			-
Restitution	1,545,025			1,545,025			1,545,025
Earned Leave	3,596,277			3,596,277	7,006,860		10,603,137
Property Tax Admin Fee	14,200,000		(14,200,000)	-			-
<b>Total Specific Purpose</b>	<b>123,504,837</b>	<b>12,000,000</b>	<b>(19,200,000)</b>	<b>116,304,837</b>	<b>7,006,860</b>	<b>(36,274,743)</b>	<b>87,036,954</b>
<b>Total Reserves</b>	<b>188,740,245</b>			<b>187,135,142</b>			<b>163,528,591</b>

**2012-13 Contributions**

The Fund Balance and Reserve Policy calls for a General Purpose Reserve targeted at 20% of locally funded appropriation, up from the previous target of 10%. For 2012-13 the general purpose reserve is increased by \$5.6 million. This brings the balance in the General Purpose Reserve to 12.7% of locally funded appropriation. The Fund Balance and Reserve Policy calls for continued annual contributions of one-time sources to this reserve until the 20% target is achieved. The following were additional contributions made in 2012-13.

- \$1.0 million contribution to the High Desert Fire Station Reserve.
- \$11.0 million contribution to the New Property Tax System Reserve.

**2012-13 Uses**

- \$5.0 million use of the Fire Facilities Reserve to fund a \$2.6 million contribution to the Needles fire station and a \$2.4 million contribution to the fire station at Spring Valley Lake
- \$14.2 million use of the Property Tax Admin Fee Reserve to settle claims with the cities arising from the litigation regarding this fee.



2013-14 Recommended Contributions and Uses

For 2013-14, there is a recommended increase to the General Purpose Reserve of \$5,661,332. This brings the balance of the General Purpose Reserve to \$76,491,637, or 13.5% of locally funded appropriation. The recommended budget also includes:

- \$7,006,860 contribution to the Earned Leave Reserve.
- The use of the entire \$22,878,705 Future Space Needs Reserve, to fund one-time capital projects and other one-time expenditures and to increase contingencies to be assigned for one-time capital projects or other one-time expenditures.
- The use of \$13,396,038 Teeter Reserve, which is the amount that this reserve is funded in excess of the legal requirement, to fund one-time capital projects and other one-time expenditures or to increase contingencies to be assigned for one-time capital projects and other one-time expenditures.

The chart below shows recent history of the County Reserve levels.

	Year-End Actual Balances				Estimated	Recommended
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
<b>Total General Purpose Reserve</b>	<b>59.7</b>	<b>59.7</b>	<b>59.7</b>	<b>65.2</b>	<b>70.8</b>	<b>76.5</b>
<b>Specific Purpose Reserves</b>						
Future Space Needs	31.9	55.5	22.9	22.9	22.9	-
New Property Tax System				9.0	20.0	20.0
Retirement	46.5	46.5	8.5	8.5	8.5	8.5
Medical Center Debt Service	32.1	32.1	32.1	32.1	32.1	32.1
Teeter	24.7	24.7	24.7	24.7	24.7	11.3
Capital Projects	4.0	4.0	4.0	-	-	-
Insurance	3.0	3.0	3.0	3.0	3.0	3.0
High Desert Fire Station	-	2.0	3.0	4.0	-	-
Restitution	1.7	1.5	1.5	1.5	1.5	1.5
Earned Leave	-	-	-	3.6	3.6	10.6
Property Tax Admin Fee	-	-	-	14.2	-	-
Electronic Voting System	0.3	-	-	-	-	-
Business Process Improvement	2.1	1.3	1.2	-	-	-
Justice Facilities	0.1	0.1	-	-	-	-
<b>Total Specific Purpose Reserves</b>	(1) <b>146.4</b>	<b>170.7</b>	<b>100.9</b>	<b>123.5</b>	<b>116.3</b>	<b>87.0</b>
<b>Total Reserves</b>	(1) <b>206.1</b>	<b>230.4</b>	<b>160.7</b>	<b>188.7</b>	<b>187.1</b>	<b>163.5</b>

(1) Totals may not add due to rounding.







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